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DEVELOPMENTS IN AGING: 1982
VOLUME 1

A REPORT

OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

PURSUANT TO

S. RES. 333, MARCH 4, 1982

Resolution Authorizing a Study of the Problems
of the Aged and Aging

February 28 (legislative day, February 23), 1983.—Ordered to be printed

S143-1

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LETTER OF TRANSMITTAL

U.S. Senate,
Special Committee on Aging,
Washington, D.C., February 28, 1983.

Hon. George Bush,
President, U.S. Senate,
Washington, D.C.

Dear Mr. President: Under authority of Senate Resolution 333, agreed to March 4, 1982, I am submitting to you the annual report of the Senate Special Committee on Aging, Developments in Aging: 1982, volume 1.

Senate Resolution 4, the Committee Systems Reorganization Amendments of 1977, authorizes the Special Committee on Aging "to conduct a continuing study of any and all matters pertaining to problems and opportunities of older people, including, but not limited to, problems and opportunities of maintaining health, of assuring adequate income, of finding employment, of engaging in productive and rewarding activity, of securing proper housing and, when necessary, of obtaining care and assistance." Senate Resolution 4 also requires that the results of these studies and recommendations be reported to the Senate annually.

This report describes actions during 1982 by the Congress, the administration, and the Senate Special Committee on Aging which are significant to our Nation's older citizens. It also summarizes and analyzes the Federal policies and programs that are of the most continuing importance for older persons, their families, and for those who hope to become older Americans in the future.

On behalf of the members of the committee and its staff, I am pleased to transmit this report to you.

Sincerely,

John Heinz, *Chairman.*

SENATE RESOLUTION 333 (SECTION 19), 97TH CONGRESS, 2D SESSION [1]

SEC. 19. (a) In carrying out the duties and functions imposed by section 104 of S. Res. 4, Ninety-fifth Congress, agreed to February 4, 1977, and in exercising the authority conferred on it by such section, the Special Committee on Aging is authorized from March 1, 1982, through February 28, 1983, in its discretion (1) to make expenditures from the contingent fund of the Senate, (2) to employ personnel, and (3) with the prior consent of the Government department or agency concerned and the Committee on Rules and Administration, to use on a reimbursable basis the services of personnel of any such department or agency.

(b) The expenses of the special committee under this section shall not exceed $901,946, of which amount (1) not to exceed $35,000 may be expended for the procurement of the services of individual consultants, or organizations thereof (as authorized by section 202(i) of the Legislative Reorganization Act of 1946, as amended), and (2) not to exceed $1,000 may be expended for the training of the professional staff of such committee (under procedures specified by section 202(j) of such Act).

(c) The special committee shall report its findings, together with such recommendations for legislation as it deems advisable, to the Senate at the earliest practicable date, but not later than February 28, 1983.

(d) Expenses of the special committee under this section shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the committee, except that vouchers shall not be required for the disbursement of salaries of employees paid at an annual rate.

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[1] Agreed to March 4, 1982.

PREFACE

The 97th Congress focused on Federal policies relating to aging throughout its term. Budget concerns dominated the congressional agenda and set the context for consideration of most aging policies and programs. With almost one-third of the Federal budget now committed to these programs, the need for more effective and coordinated policies and programs became ever more apparent.

The financial problems of the two largest and most important Federal programs—social security retirement and medicare—prompted intense study and proposals for action with regard to the first but only modest steps toward addressing the second. The National Commission on Social Security Reform, after a full year of study and negotiation, proposed a comprehensive package of recommendations to the Congress at the beginning of 1983. Enactment of the entire package would probably meet social security's financing needs for the next 50 years, but the Commission could not achieve a consensus on how to insure the fund's financial integrity for the full 75-year period for which projections are made, which includes the years after 2020 when the most severe strains will be placed on social security's financial integrity.

Behind the hoped-for bipartisan solution to the social security problem, however, lies an even more serious and intractable problem—the pending insolvency of the medicare program. Even with major reforms, such as the prospective payment system for hospitals proposed at the close of 1982, medicare is projected to have sufficient revenues only for another 3 to 5 years without truly substantial changes in financing, benefits, or provider reimbursement. This situation is primarily due to the persistent high cost-inflation and increases in utilization that have characterized the entire health care industry in recent years. Clearly fundamental health care reforms will be necessary during the rest of this decade.

Average health care costs for elderly persons have now returned to the relative level of 1965, before the enactment of medicare, with health expenditures not covered by medicare now averaging almost 20 percent of total annual income. If this upward trend continues, and there is every indication that it will, then older Americans in the future will face a true crisis from the threat of impoverishment due to medical costs. This will be particularly true for the aged, those over 75, who are at the greatest risk for both acute and chronic health problems.

After the financial crises facing social security and medicare, which will define a large part of the aging agenda for the 98th Congress, perhaps the most basic unmet challenge facing us today is the lack of a coherent national policy on long-term care. Care for chronic conditions is very expensive due to its long duration and is only covered by medicaid for certain institutional services after all other assets have been exhausted. Neither public nor private insurance mechanisms have responded adequately to the need that will certainly increase geometrically in future years.

Legislative efforts to strengthen the Federal role in stimulating economic growth affected important aspects of aging policy during the 97th Congress, as the desire to encourage capital formation contributed to major liberalizations in the tax treatment of savings for retirement. Another example of the interrelationship between economic growth and aging policy is the growing concern over declining rates of labor force participation among older workers, especially men in their fifties and sixties, even in the face of public opinion surveys that show a majority would like to work after reaching the normal retirement age if they could find appropriate jobs and flexible arrangements for doing so. We believe that the human resources now largely wasted by our current failure to adapt work patterns to the needs of older workers cannot continue to be lost without a substantial cost to the future economic well-being of our society.

The needs of our older population continue to outpace the public resources available to meet them. Despite a guaranteed minimum income for those over 65 (SSI), and despite social security benefits fully indexed to the CPI, the percentage of elderly persons whose incomes fell below the poverty line was 15.3 percent. This figure has remained essentially static for the last 8 years and may substantially understate the numbers of people in genuine economic distress. While noncash assistance programs such as food stamps, housing subsidies, and medicaid help many low-income elderly, a majority of older persons with incomes below the poverty line still do not participate in either SSI or the noncash assistance programs.

The persistence of unmet needs in the face of the enormous sums that we now spend on programs serving older persons raises the issue of the basis for the allocation of these benefits. The debate has begun to be framed in terms of "age versus need," with the traditional idea of age-based universal entitlement programs matched against the newer concern that targeted or needs-based public policies could use available resources much more effectively in meeting actual human needs. A related point, made in the light of both the heterogeneity of today's older population and the growing convergence in economic circumstance between older and younger families, concerns the rule of public policy in promoting an "age-neutral" or "age-integrated" society in which persons of all ages would participate on equal basis without the use of chronological age as the only proxy for entitlement. It seems clear that this debate will continue to characterize many of the issues relating to aging policy in the coming years.

These challenges are taking place against a demographic and economic backdrop that is becoming familiar to everyone who looks at the future of domestic social policy. It is much more than simply the growth of the elderly population, dramatic though that will be, and more than the gains in longevity. Instead, the projections point to the emergence of an entirely new societal "age-geography" that will require adjustments in all of our institutions, both public and private, as the center of demographic and economic gravity shifts toward middle-aged and older Americans.

While we are inevitably maturing as a population, the process will not be a smooth or gradual one. Instead, the post-war baby boom generation now in young adulthood will bring very sudden and dramatic transformations to each decade as it matures. When this generation nears retirement age, beginning around the year 2010, the dislocations could be severe if we do not plan for this event well in advance. In effect, we have only 30 years to prepare for major, yet foreseeable, changes in our society.

In light of these and many other public policy issues of concern to all Americans, the Senate Special Committee on Aging has engaged in a productive year. We continue to expand our efforts to inform the public through committee prints and newsletters, and our hearings have focused on the most pressing issues before the Congress. In many instances, members of the committee were able to successfully propose legislative initiatives designed to better serve older Americans as a result of the committee's work.

The report that follows discusses these developments in 1982, but it is also important to note that it attempts to survey only Federal policies and programs, and makes no attempt to cover equally significant developments that may be occurring at the State and local levels, in the private sector, in our universities, in cultural attitudes, or in our family relationships. It is the interaction of these elements that will shape the opportunities and needs of future generations of older Americans.

We wish to acknowledge the many contributions of Senator Lawton Chiles, who served as the ranking minority member of the committee during the 97th Congress. This report reflects many of the accomplishments that he supported and worked to achieve. His service on behalf of older Americans begins a new chapter as he assumes new responsibilities as ranking minority member of the Budget Committee. We also wish to acknowledge the services of the minority staff, particularly the minority staff director, E. Bentley Lipscomb, who served under Senator Chiles.

Finally, we acknowledge the dedicated work of the authors of this report, the staff of the Senate Special Committee on Aging. This report is a synthesis of the working knowledge they bring to the service of the committee.

In sum, the challenges ahead are growing both in magnitude and complexity. Although we have, as a country, made giant strides in improving the quality of life for our eldest members in recent years, the central public policy challenge during the remainder of this century will be the extent to which we can adapt ourselves to changing circumstances and still meet the needs and expand the opportunities accompanying the promise of long life.

JOHN HEINZ,
Chairman.
JOHN GLENN,
Ranking Minority Member.

CONTENTS

Page
Letter of transmittal III
Senate Resolution 333 (section 19), 97th Congress, 2d session V
Preface VII
Chapter 1. America in transition: An aging society 1
Chapter 2. Economic performance, Federal budget, and tax policy 42

PART I. RETIREMENT INCOME 67

Chapter 3. Social security financing 75
Chapter 4. Employee pensions 133
Chapter 5. Social security disability 188
Chapter 6. Savings 238

PART II. LOW-INCOME ASSISTANCE PROGRAMS 271

Chapter 7. Supplemental security income (SSI) 277
Chapter 8. Food stamps 293
Chapter 9. Housing 299
Chapter 10. Energy assistance and weatherization 317

PART III. EMPLOYMENT 333

Chapter 11. The older worker: Profiles and options 335
Chapter 12. Age discrimination 360

PART IV. HEALTH 375

Chapter 13. Federal health care programs 379
Chapter 14. Long-term care 422

PART V. SOCIAL SERVICES 445

Chapter 15. Older Americans Act 448
Chapter 16. Social services block grant (title XX) 466
Chapter 17. ACTION: Volunteer programs for older Americans 472
Chapter 18. Community services block grant 479
Chapter 19. Legal services 484
Chapter 20. Transportation for older Americans 491
Chapter 21. Education 499

PART VI. CRIMES AND FRAUDS AGAINST THE ELDERLY 505

Chapter 22. Violent crime 506
Chapter 23. Consumer frauds and deceptions 512

PART VII. CONFERENCES 521

Chapter 24. 1981 White House Conference on Aging 522
Chapter 25. The World Assembly on Aging 537

SUPPLEMENTAL MATERIAL

Supplement 1. Major legislation passed in 2d session of 97th Congress affecting older Americans 565
Supplement 2. 1982 hearings before the Senate Special Committee on Aging 567
Supplement 3. Committee prints and reports printed by the Special Committee on Aging in 1982 579
Supplement 4. Staff of the Senate Special Committee on Aging 580
Supplement 5. Publications list 581

98th Congress
1st Session

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DEVELOPMENTS IN AGING: 1982

VOLUME 1

February 28 (legislative day, February 23), 1983.—Ordered to be printed

Mr. Heinz, from the Special Committee on Aging,
submitted the following

REPORT

[Pursuant to S. Res. 333, 97th Cong.]

Chapter 1

AMERICA IN TRANSITION: AN AGING SOCIETY

One of the most significant demographic facts affecting American society today, and for the next 50 years, is the aging of its population. The number of elderly persons has grown and will continue to grow more rapidly than the total population. In 1982, 11 percent of all Americans were elderly (65 and older) and by the year 2025, it is projected that they will comprise 19 percent of the total population.[1]

A quick overview of this surge in the size of the aging population highlights such facts as:

—The 65+ population grew twice as fast as the rest of the population in the last two decades.

—The 85+ group is growing especially rapidly, up 165 percent from 1960 to 1982.

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[1] U.S. Dept. of Commerce. Bureau of the Census. Projections of the Population of the United States 1982 to 2050 (Advance Report), Current Population Reports. Series P-25, No. 922, October 1982. The projections used here are the "middle" series which assumes that fertility rates will remain steady, life expectancy will rise slowly, and net immigration will remain at 450,000 per year. The accuracy of the projections of the number of older Americans depends primarily on the accuracy of the mortality assumption; the accuracy of the percentage depends additionally on future birth rates, and thus we have less confidence in the proportions.

Note: This chapter was prepared for the committee by Cynthia Taeuber of the Population Division, Bureau of the Census, U.S. Dept. of Commerce. Elizabeth Vierck, a consultant to the committee, assisted in preparing the charts.

—The death rates of the elderly population, especially women, fell considerably over the last 40 years.

—The ratio of elderly to those under 65 will probably be 1 to 5 in 1990 and 1 to 3 in 2025.

—In 50 years, the ratio of people over 65 to people 18 to 64 will be almost three times as great as it was in 1950.

—The median income of elderly persons had a higher percentage increase over the last two decades than the median income of the younger adult population.

—Despite this improvement, about one of every seven Americans over the age of 65 lives in poverty.

—Elderly women are almost twice as likely as elderly men to be poor; half of elderly widowed black women live in poverty.

—About 8 in 10 persons 65 and over now describe their health as "good" or "excellent," compared with others of their own age.

—Elderly men are most likely to be married while elderly women are most likely to be widowed.

—The number of elderly women living alone has doubled in the last 15 years.

—During the last decade, the number of elderly persons living in central cities has declined while the number living in the suburbs and small towns has increased.

—Half of those over 65 who work now do so on a part-time basis, as compared to a third 20 years ago; and

—In the 1980 election, one-third of Americans who voted were 55 or older. Seventy percent of those aged 55 to 74 voted.

"Aging" is a general term which can be defined as a physiological, behavioral, sociological, or chronological phenomenon. This chapter will use the chronological concept to look at the population 55 years and over on the assumption that the other aspects of aging tend to follow chronological age for large populations. When possible, the statistics will be distinguished for the "older" population (age 55 and over), the "elderly" (age 65 and over), the "aged" (75 years and over), and the "very old" (85 years and over).

A. NUMERICAL GROWTH

At the beginning of the century, about 7.1 million persons, less than 10 percent of the total population, were age 55 and over. In 1982, over one-fifth of the American population was 55 years old or over, an estimated 48.9 million persons. Of the total population, about 9.5 percent (22.1 million) were 55 to 64 years old, 7 percent (16.1 million) were 65 to 74 years old, 3.6 percent (8.2 million) were 75 to 84 years old, and 1.1 percent (2.5 million) were 85 years old and over. About 15,000 persons were aged 100 and over, with over two-thirds of that group being white females.

1. PROJECTED INCREASES

Through the year 2000, the population age 55 and over is expected to remain at just over one-fifth of the total population. By 2010, because of the maturation of the baby boom group, the proportion of older to younger will rise dramatically—one-fourth of the total U.S. population (74.1 million) is projected to be at least 55 years old. One out of seven Americans are expected to be 65 and over (34.3 million) and the number of persons aged 85 and over could more than double to 6.8 million, 2.4 percent of the total population.

By the year 2030, it is likely that one out of five Americans will be 65 or older (64.3 million), which will represent an 87-percent increase in a 20-year span. At that same time, almost 33 percent of the population will be 85 or older (8.8 million). Finally, by 2050, nearly one-third of the population (104.3 million) is expected to be at least age 55.[2] So, while the total U.S. population is projected to increase by a third from its present size between 1982 and 2050, the older element—those persons age 55 and over—is expected to grow 113 percent (table 1, chart 1).

TABLE 1.—THE GROWTH OF THE OLDER POPULATION, ACTUAL AND PROJECTED: 1900–2050

[Numbers in thousands]

Year	Total population, all ages	55 to 64 years		65 to 74 years		75 to 84 years		85 years and over		65 years and over	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
1900	76,303	4,009	5.3	2,189	2.9	772	1.0	123	0.2	3,084	4.0
1910	91,972	5,054	5.5	2,793	3.0	989	1.1	167	.2	3,950	4.3
1920	105,711	6,532	6.2	3,464	3.3	1,259	1.2	210	.2	4,933	4.7
1930	122,775	8,397	6.8	4,721	3.8	1,641	1.3	272	.2	6,634	5.4
1940	131,669	10,572	8.0	6,375	4.8	2,278	1.7	365	.3	9,019	6.8
1950	150,697	13,295	8.8	8,415	5.6	3,278	2.2	577	.4	12,270	8.1
1960	179,323	15,572	8.7	10,997	6.1	4,633	2.6	929	.5	16,560	9.2
1970	203,302	18,608	9.2	12,447	6.1	6,124	3.0	1,409	.7	19,980	9.8
1980	226,505	21,700	9.6	15,578	6.9	7,727	3.4	2,240	9.9	25,544	11.3
1990	249,731	21,090	8.4	18,054	7.2	10,284	4.1	3,461	1.4	31,799	12.7
2000	267,990	23,779	8.9	17,693	6.6	12,207	4.6	5,136	1.9	35,036	13.1
2010	283,141	34,828	12.3	20,279	7.2	12,172	4.3	6,818	2.4	39,269	13.9
2020	296,339	40,243	13.6	29,769	10.0	14,280	4.8	7,337	2.5	51,386	17.3
2030	304,330	33,965	11.2	34,416	11.3	21,128	6.9	8,801	2.9	64,345	21.1
2040	307,952	34,664	11.3	29,168	9.5	24,529	8.0	12,946	4.2	66,643	21.6
2050	308,856	37,276	12.1	30,022	9.7	20,976	6.8	16,063	5.2	67,061	21.7

Source: U.S. Dept. of Commerce. Bureau of the Census. Decennial Censuses of Population, 1900–1980 and Projections of the Population of the United States: 1982 to 2050 (Advance Report). Current Population Reports, Series P–25, No. 922, October 1982. Projections are middle series.

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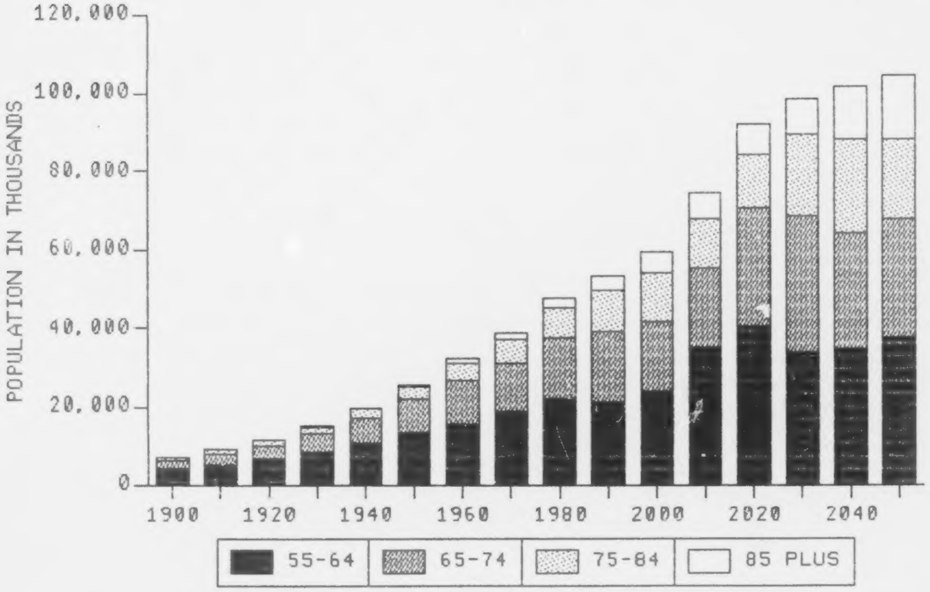
[2] U.S. Dept. of Commerce. Bureau of the Census. Series P–25, No. 922, Ibid.

CHART 1

POPULATION 55 YEARS AND OVER BY AGE: 1900-2050



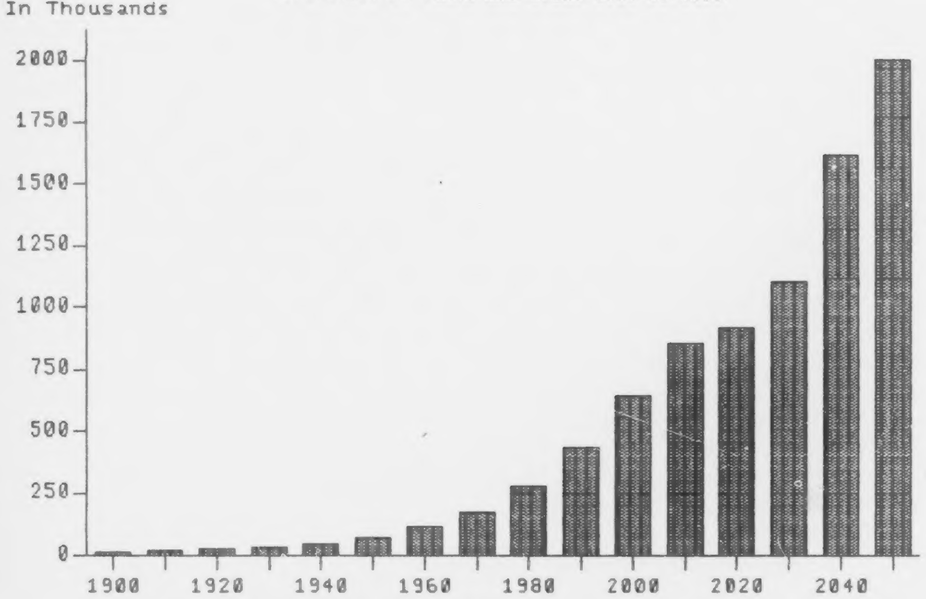
Source: U.S. Dept. of Commerce. Bureau of the Census. Decennial Censuses of Population, 1890-1980, and Projections of the Population of the United States: 1982 to 2050. Current Population Reports, Series P-25, No. 922, middle series.

The age groups which require special attention—and which will experience dramatic increases in numbers—are the aged and the very old. Less than 5 percent of the population was 75 or older in 1982; by 2030, almost 10 percent of the population is projected to be in that age group. By 2050, the 75 or older group is expected to be about 12 percent of the entire population. Meanwhile, the population aged 85 and over is projected to jump from about 1 percent in 1982 to over 5 percent of the total population in 2050. Chart 2 illustrates the dramatic increases in the number and proportion of the very old—from 123,000 in 1900, to 2.5 million in 1982, to a projected 16 million in 2050.

Overall, those 85 and over are projected to be the fastest growing part of the older population. In less than 30 years, the number of white males, white females, and black males 85 years and over is expected to increase about 1½ times while the number of black women in that group is expected almost to triple. Because of the increasing number of persons who survive into their eighties, it is

CHART 2

POPULATION 85 YEARS AND OVER: 1900 TO 2050



Source: U.S. Dept. of Commerce. Bureau of the Census. Decennial Censuses, 1900-1980; and Current Population Reports, P-25, No. 922, Middle Series Projections.

increasingly likely that older persons will themselves have a surviving parent.

2. IMPACT OF HIGH FERTILITY PERIODS

It is commonly assumed that the current growth of the older population is due to increased longevity. The prime cause, however, is a steady increase in the annual number of births in the years prior to 1920. Increases in longevity are, in fact, only a secondary cause of this shift. From 1920 to 1940, there was a drop in the number of births, accounting for the projected slowdown in the growth of the older population from 1990 to 2010. The post-World War II baby boom accounts for the projected rapid rise in the number of elderly from 2010 until 2030. After that, the growth rate will slow again because of low birth rates during the "baby bust" period from 1965 to 1973. With continued improvements in mortality rates, the projections shown in table 1 will understate the projected size of the future older population.

3. RACE AND ETHNIC ORIGIN

The proportion of the population which is elderly varies considerably by race and ethnic origin. In 1982, about 12 percent of whites were 65 and over, 8 percent of blacks, 6 percent of Asians and Pacific Islanders, and 5 percent each of American Indians and Hispanics.[3]

Over the last decade, the elderly white population grew by about one-fourth, but the elderly black population grew about one-third. The black population has grown at a faster rate than the white population partly as a result of higher fertility levels and partly as a result of the more rapid gains in life expectancy experienced by blacks than whites. In 1900, the average life expectancy at birth was 16 years higher for whites than for blacks; by 1978, the difference had been reduced to 5 years.

In 1982, 8.5 percent of the population 55 years and over was black (table 2); by 2050, blacks are projected to make up over 14 percent of the older population. In 1982, white females 55 years and over constituted almost 11 percent of the total U.S. population, white males about 8 percent, black women just over 1 percent, and black men less than 1 percent.

TABLE 2.—POPULATION 55 YEARS AND OVER BY RACE AND SEX: 1982

[Numbers in thousands]

	Total	White	Black	Other races
Total 55+	48,930	44,078	4,148	704
55 to 64	22,096	19,780	1,953	363
65 to 74	16,129	14,531	1,380	218
75 to 84	8,239	7,495	646	98
85+	2,466	2,272	169	24
Male 55+	21,105	19,043	1,737	325
55 to 64	10,329	9,300	861	167
65 to 74	6,996	6,318	576	102
75 to 84	3,053	2,761	245	47
85+	728	664	55	9
Female 55+	27,825	25,036	2,410	379
55 to 64	11,768	10,480	1,092	196
65 to 74	9,133	8,213	804	116
75 to 84	5,183	4,734	400	52
85+	1,738	1,609	114	15

Source: U.S. Dept. of Commerce. Bureau of the Census. Projections of the Population of the United States: 1982 to 2050 (Advanced Report). Current Population Reports. Series P-25, No. 922, October 1982.

4. SEX DIFFERENTIALS

Because the life expectancy of men is less than that of women, the health, social, and economic problems of the elderly, especially those over age 70, are mostly the problems of women. Old age is associated with "one-person (female) households, reduced income, and increased poverty, and greater risk of ill-health, death, and institutionalization."[4]

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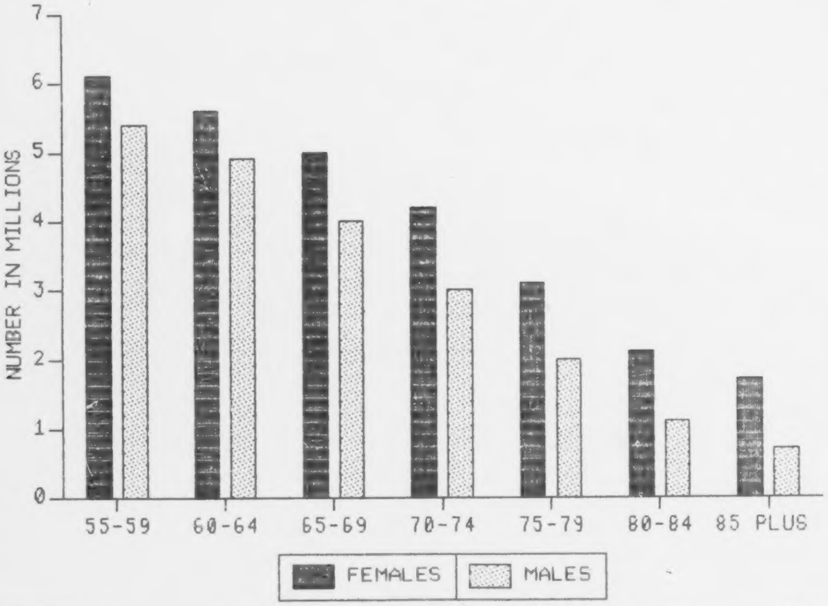
[3] The discussion of minority elderly in this chapter is primarily limited to the black population due to insufficient data on other minority elderly groups. The 1980 census figures on the characteristics of these populations will be available sometime in 1983.

[4] Siegel, Jacob S., and Sally L. Hoover, Demographic Aspects of the Health of the Elderly to the Year 2000 and Beyond. World Health Organization, WHO/AGE/82.3, July 1982. Prepared for the World Assembly on Aging, July-August 1982, Vienna, Austria. p. 22.

Elderly women now outnumber men 3 to 2, a considerable change from 1960 when women outnumbered men by only 5 to 4. In 1982, there were 80 men aged 65 to 69 years for every 100 females in that same age group, and 42 men aged 85 and over for every 100 females aged 85 and over (chart 3). These statistics emphasize the fact that the older woman has a high probability of living longer than the older man and, therefore, alone. Moreover, she is unlikely to remarry once she is widowed. The difference between the number of older men and women is significant within every age group.

CHART 3

POPULATION 55 YEARS AND OVER BY AGE AND SEX: 1982



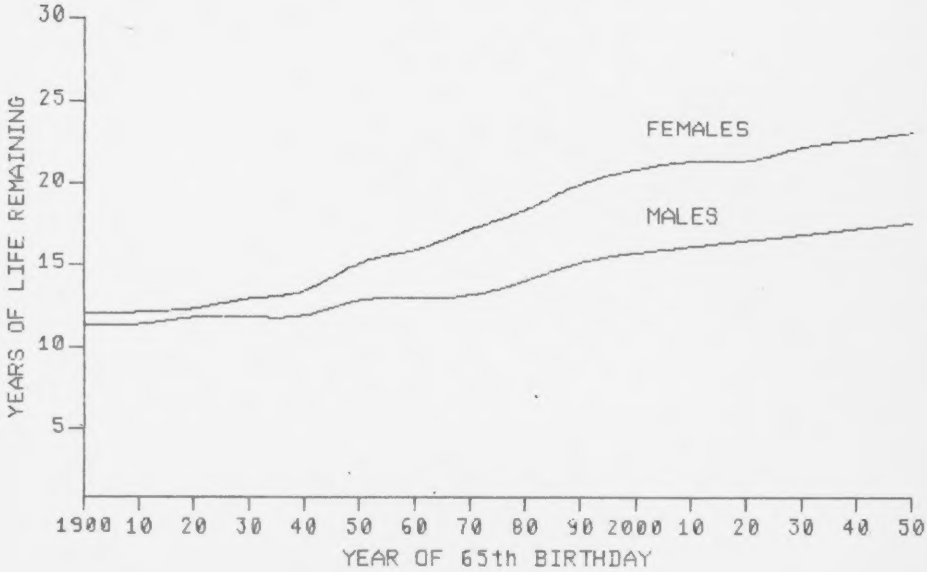
SOURCE: Bureau of the Census, Current Population Reports, Series P-25, No. 922

5. Life Expectancy

Based on the mortality experience of 1900, an individual born in that year could expect to live an average of 49 years. By 1954, life expectancy at birth had jumped to 70 years; by 1981, it almost reached 74. In 1930, only half of all babies were expected to live to age 65; by 1981, over three-fourths of all newborns could expect to reach that age. From 1940–78, remaining life expectancy for males age 65 increased by only about 2 years (from 12.1 to 14 years); but for females it increased by almost 5 years (from 13.6 to 18.4 years) (chart 4).

CHART 4

LIFE EXPECTANCY AT AGE 65: 1900 to 2050



SOURCE: SOCIAL SECURITY ADMINISTRATION, OFFICE OF THE ACTUARY
SEPTEMBER, 1982

Life expectancy at birth differs according to race (chart 5). In 1940, the difference between whites and blacks was 11 years; by 1978, the difference had been reduced to 5 years. Much of the difference has been attributed to socioeconomic status.[5] The difference between blacks and whites in life expectancy at age 65, however, is small and has been for decades. In fact, death rates are higher for whites after age 75 than for blacks.

Dramatic changes in mortality rates have been registered since 1940. Mortality declined rapidly from 1940 to 1954, changed little from 1955 to 1967, and again declined rapidly from 1968 to 1978. While the death rates have fallen for both men and women, the rates have declined at a faster pace for women. In the 1968 to 1978 period, the average annual rate of decline in the mortality rate for those 65 and over was 1.5 percent for males and 2.3 percent for females. The largest declines were for those 65 to 69 and for those 85

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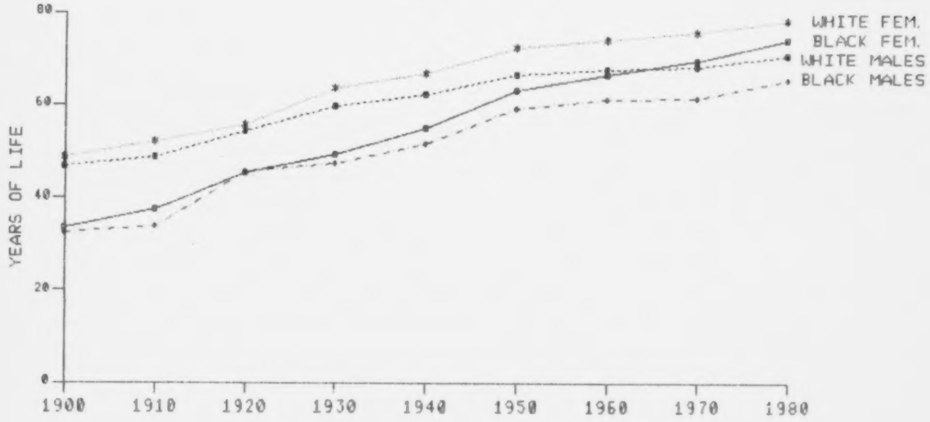
[5] Kitagawa, E. M., and P. M. Hauser. Differential Mortality in the United States: A Study in Socioeconomic Epidemiology. Cambridge, Harvard University Press, 1973. Chapters 2 and 8.

CHART 5

EXPECTATION OF LIFE AT BIRTH BY RACE AND SEX
1900 to 1980



SOURCE: Bureau of the Census. Historical Statistics of the United States, 1975 and National Center for Health Statistics, Monthly Vital Statistics, Vol. 29, No. 13, September, 1981

and over. The declines in this period were primarily due to a reduction in the mortality rates of major cardiovascular diseases.[6] Mortality differences among older males and females have steadily increased, from a difference in the age-adjusted death rates of 22 percent in favor of females in 1940 to a difference of 73 percent in favor of females by 1978.[7] Whether this difference is due to environmental or genetic factors is not easily established.

Not only do mortality trends have major implications for the numbers and proportion of elderly in the future American population, but they also affect the health needs of the older population. Decreases in mortality rates do not translate into better health for all those living longer. Rather, the projected rapid increase in the size of the older population, particularly the very old, implies related increases in the demand for health care delivery and assistance. The projections for needed health care services are based upon the continuation of current mortality and utilization levels. If utilization rates decrease and if major diseases (especially heart diseases) are eliminated or delayed, the need for long-term care services and similar age-related health expenditures will decrease accordingly. On the other hand, if the limitations due to chronic disease were simply delayed rather than shortened, health costs could exceed even current projections.

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[6] Manton, Kenneth G., and Eric Stallard. Temporal Trends in U.S. Multiple Cause of Death Mortality Data: 1968 to 1977. Demography, v. 19, No. 4, November 1982. pp. 527-547.

[7] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. L. Fingehut, Changes in Mortality Among the Elderly, United States, 1940-1978, Vital and Health Statistics. Series 3, No. 22. DHHS pub. No. (PHS) 892-1406, March 1982. Washington, U.S. Govt. Print. Off. pp. 2-5.

6. RELATION TO WORKING-AGE POPULATION

The combined effect of decreased fertility levels and increased numbers of elderly persons will result in growth in the ratio of elderly persons compared to persons of working age (18 to 64 years of age). In 1900, there were about 7 elderly persons for every 100 persons 18 to 64 years; by 1982, that ratio was almost 19 elderly persons per 100 of working age. By 2010, that ratio is expected to be 22 per 100, and to increase rapidly to 38 per 100 by 2050. This ratio is often referred to as a "support ratio." The ratio reflects the economic fact that the working population "supports" nonworking age-groups. The ratio reflecting those who have retired, as opposed to children, is especially important since it is primarily publicly-funded programs which serve retirees. Moreover, the previously noted dramatic growth in the very old age group, with relatively greater health, social and economic needs, will require proportionately higher levels of "support" than is true today (table 3, chart 6).

TABLE 3.—TOTAL SUPPORT RATIO, AGED SUPPORT RATIO, AND YOUNG SUPPORT RATIO: 1900–2050

[Number of persons per 100 aged 18 to 64 years]

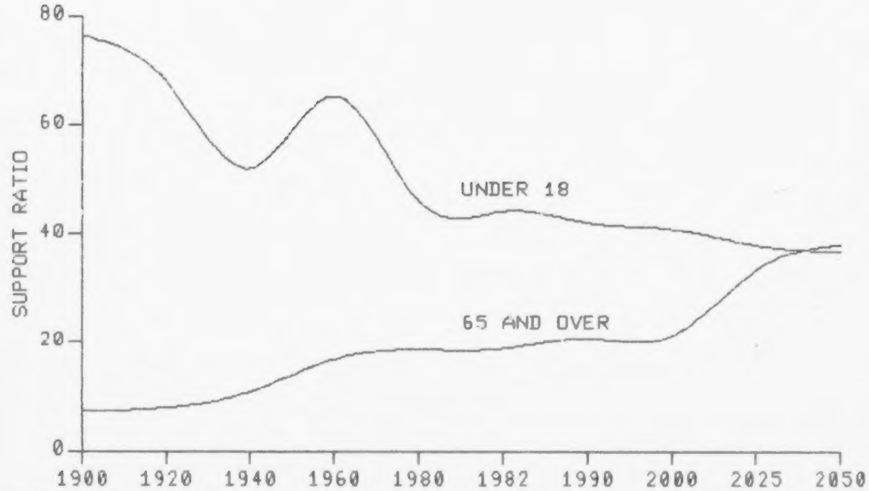
	1900	1920	1940	1960	1980	1982 [1]	1990	2000	2025	2050
Total support ratio (under 18 and 65 and over)	83.65	75.69	62.84	81.95	64.39	62.86	62.57	61.86	71.00	74.46
Aged support ratio (65 years and over)	7.35	7.99	10.90	16.84	18.59	18.82	20.70	21.16	33.31	37.85
Young support ratio (under 18)	76.30	67.70	51.94	65.11	45.80	44.04	41.87	40.70	37.69	36.61

[1] Based on estimates.

Source: U.S. Dept. of Commerce. Bureau of the Census. Projections of the Population of the United States: 1982 to 2050 (Advance Report). Series P-25, No. 922, October 1982, and Estimates of the Population of the United States, by Single Years of Age, Color, and Sex: 1900 to 1959. Series P-25, No. 311, July 2, 1965 and Series P-25, No. 310, June 30, 1965. Projections are the middle series.

CHART 6

YOUNG AND ELDERLY SUPPORT RATIO FOR 1900-2050



SOURCE: U.S. Bureau of the Census, Current Population Reports, Series P-25, No. 922, No. 310 and No. 311. Projections are the middle series.

NOTE: "Young support ratio is the number of persons under 18 per 100 aged 18-64 years. "Elderly" support ratio is the number 65+ per 100 aged 18-64 years.

B. INCOME AND POVERTY

The economic position of elderly persons is, in general, at a considerably lower level and is much less secure than that of the younger population. Only a minority manage to maintain relatively high incomes throughout their later years. Lower incomes in the elderly population are associated with factors over which elderly persons themselves have little control: Their sex and race, the health and survival of their spouses, and their own health and ability to continue to work at acceptable wages. There is a strong pattern of declining income associated with advancing age. Older people who work full time tend to have incomes similar to younger persons of the same race and sex. For many elderly who do not work, social security payments are vital. The paragraphs which follow discuss more specifically the factors which affect the income levels of elderly persons, the most important sources of income, and poverty levels.[8]

Age, race, and sex are significant factors in income level. Income tends to increase with age until about 55, when significant numbers of people begin to retire and a steady decline in income level begins (chart 7). For example, the median income in 1981 of men

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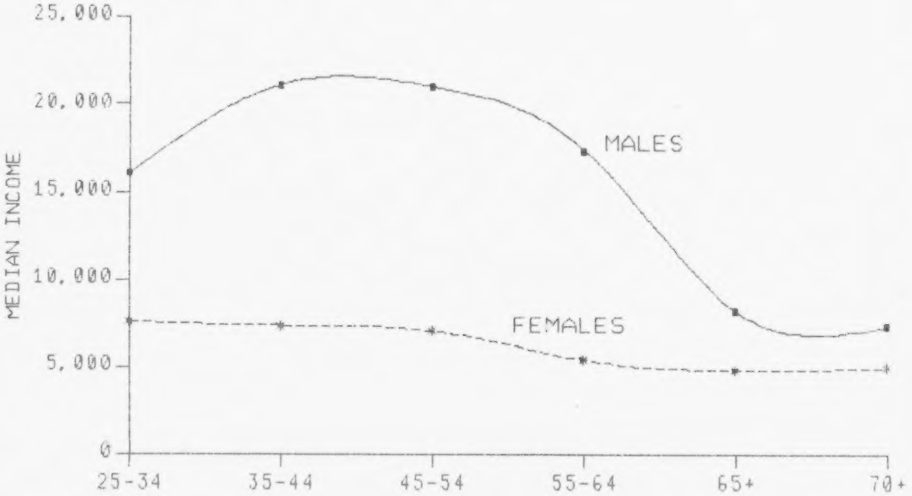
[8] Current data are from the March 1982 Current Population Survey and refer to money income in 1981 for the noninstitutionalized population only.

CHART 7

MEDIAN INCOME OF PERSONS 25 YEARS AND OVER BY SEX AND AGE: 1981



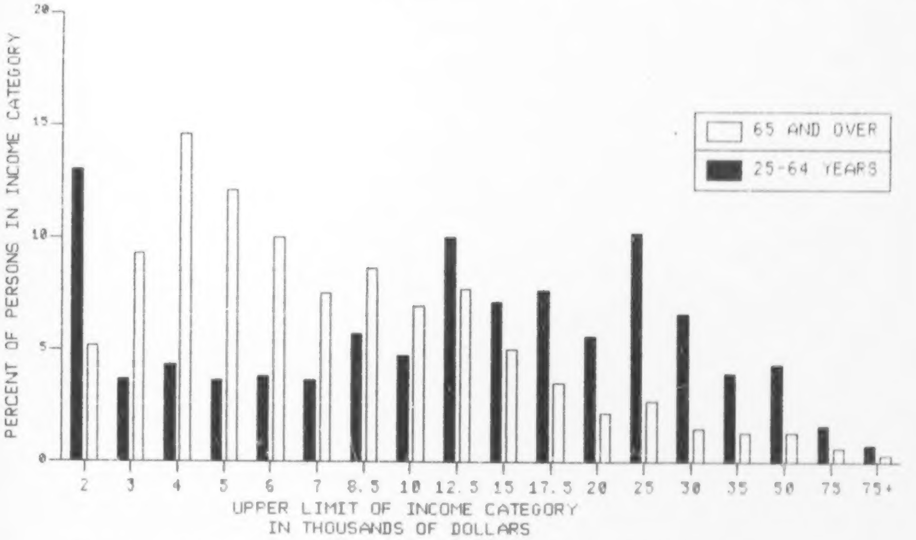
Source: Bureau of the Census, Current Population Reports, Series P-60, No. 134, July 1982. Figures based upon income of all persons age 65 and over, whether or not they are part of the labor force. Income of females would be comparatively higher if only those part of the labor force were counted.

aged 60 to 64 years was about three-fourths that of men 15 years younger ($15,000 versus $21,000) but almost double that of men aged 65 and over ($8,200). The pattern for women is much the same, although the decline begins at age 50 and is at much lower levels. Elderly women had a median income in 1981 of $4,800, compared with about $7,000 for women aged 25 to 64 years. Three-fourths of the elderly had incomes below $10,000 compared with about 42 percent of those aged 25 to 64 years. About a fourth of the younger group had incomes greater than $20,000 but only about 7 percent of the elderly were so wealthy. Incomes greater than $50,000 were received by not quite 1 percent of the elderly (219,000 out of the 25 million elderly with income), about half of whom were 65 to 69 years old (chart 8).

While the income levels of most elderly persons are low in an absolute sense, as well as in comparison to the younger adult population, inflation did not affect the elderly population as much as the younger population. Real median incomes of the elderly remained about constant from 1980 to 1981, a reflection in part of the indexing of many sources of retirement income to the Consumer Price Index. For the younger population, on the other hand, median

CHART 8

INCOME DISTRIBUTION OF PERSONS 25 to 64 YEARS AND 65 AND OVER



SOURCE: Bureau of the Census, March 1982 CPS, unpublished

income dropped a few percent from the 1980 level. In 1972, a major "catchup" increase was enacted in social security benefits and as a result the median incomes of the elderly grew at about double the rate of those for younger people over the past decade. Using constant dollars, the median income of elderly persons has more than doubled since 1951 (table 4, chart 9).

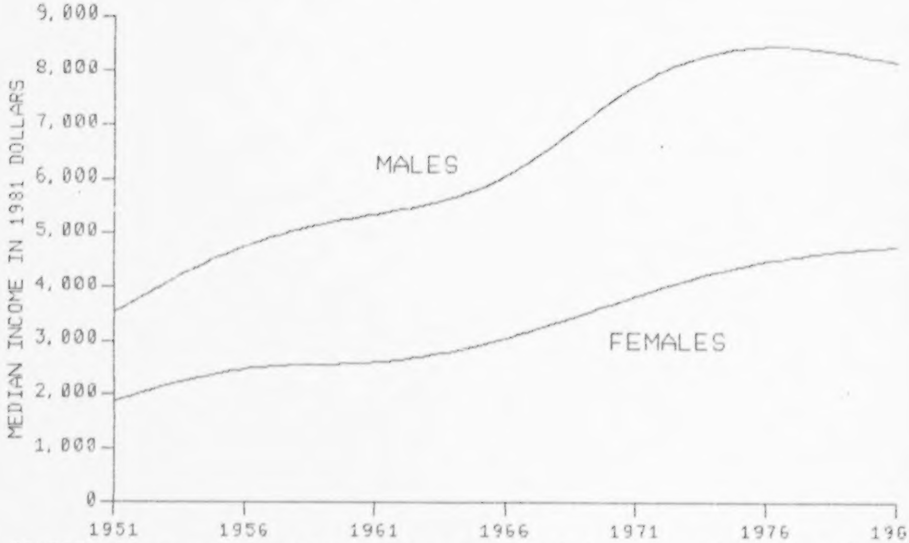
TABLE 4.—MEDIAN INCOME (IN CONSTANT 1981 DOLLARS) OF PERSONS 65 YEARS AND OVER: 1951-81

Year	Male		Female	
	In current dollars	In 1981 dollars	In current dollars	In 1981 dollars
1981	$8,173	$8,173	$4,757	$4,757
1976	5,293	8,456	2,816	4,483
1971	3,449	7,745	1,706	3,831
1966	2,162	6,059	1,085	3,041
1961	1,758	5,345	854	2,596
1956	1,421	4,755	738	2,470
1951	1,008	3,529	536	1,877

Source: U.S. Dept. of Commerce, Bureau of the Census, Current Population Report Series P-60 for indicated years, 1981 constant dollars computed.

CHART 9

MEDIAN INCOME IN CONSTANT 1981 DOLLARS FOR MALES AND FEMALES 65 YEARS AND OVER FOR SELECTED YEARS

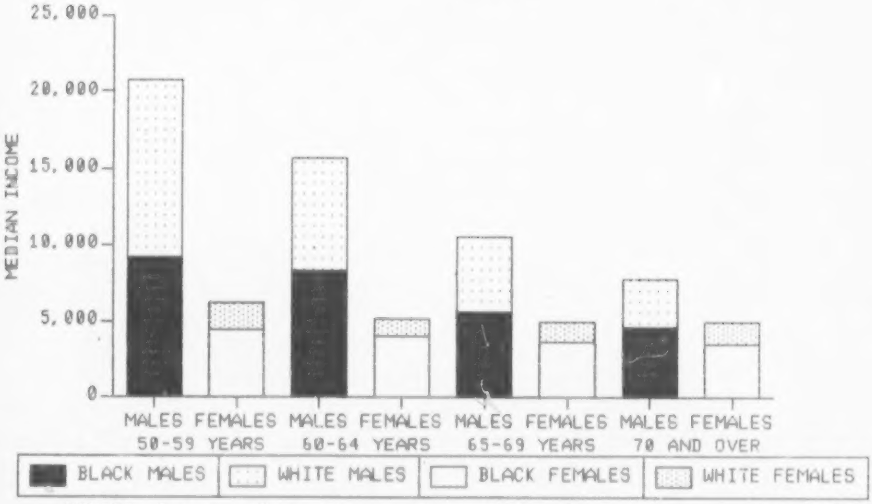


SOURCE: Bureau of the Census, Current Population Report, Series P-60
1981 constant dollars computed

Within the elderly population, income differences between men and women, and between whites and blacks, are striking. The income level of women, for all age groups, is much less than that of men of the same race. White men tend to have the highest median incomes and black women the lowest. In 1981, elderly white men had median incomes of about $8,600; white women, $4,900; black men, $4,900; and black women, $3,500 (chart 10). Four out of five elderly black women had incomes in 1981 less than $5,000 compared with about half of white women and black men and a fifth of white men. Contrary to the popular notion of the older rich widow, the statistics show that such women are a very small proportion of the elderly: Out of 24 million older white women, only 86,000 had incomes greater than $50,000, and not all of these were widows. As already indicated, the high income elderly population is relatively small but white males are by far the most likely to be in this group. Almost 9 percent of elderly white males had incomes greater than $30,000 in 1981 compared with 1 percent for white females and two-tenths of 1 percent for black males and black females.

CHART 10

MEDIAN ANNUAL INCOMES OF PERSONS 55 YEARS AND OVER; BY AGE, RACE, AND SEX: 1981

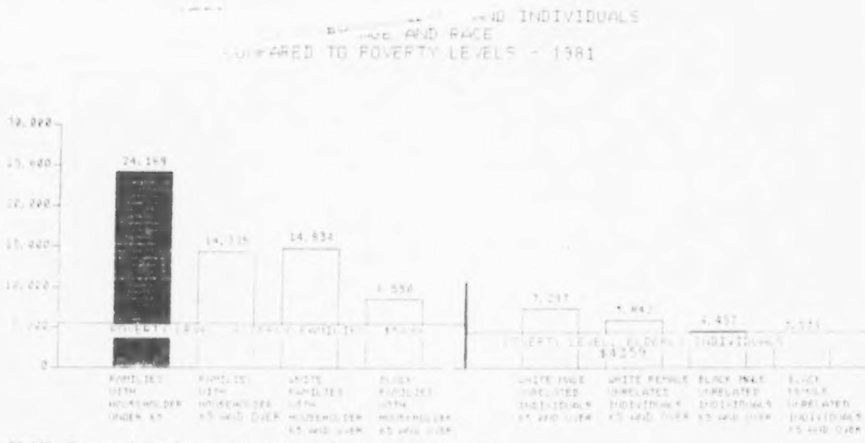


SOURCE: Bureau of the Census, Current Population Survey, March 1982 unpublished

Comparisons of income between elderly persons living alone and those living as part of a family or as part of multiperson households show that those living alone receive much less income. Some of the per-person difference is undoubtedly due to the fact that those not part of a family are older, and income usually declines with age. But much of the difference is due to the loss of a spouse and the alteration of stable and supporting living arrangements, and the loss of income from work.

In 1981, there were 9.4 million families maintained by a person 65 years old or over. The median income of elderly families for that year was $14,335 (chart 11), which was much lower than that of younger families. But elderly families tend to be smaller than younger families, and when family size is taken into account, the median income of the elderly family was about 90 percent of that of all families in 1981. The relative position of elderly families has improved considerably since 1970 when they had a median income adjusted for family size of about 77 percent of that of all families. Much of this improvement is due to the 1972 one-time 20-percent increase and the cost-of-living increases in social security benefits which began in 1975.

CHART 11



SOURCE: Bureau of the Census, Current Pop. Reports, P-60, No. 134

Even when family size is considered, there are a substantial number of elderly families with incomes at the lowest economic levels as compared with younger families. In 1981, of families maintained by an elderly person, 3 out of 10 had incomes less than $10,000, 5 had incomes between $10,000 and $25,000, and 2 had incomes greater than $25,000.

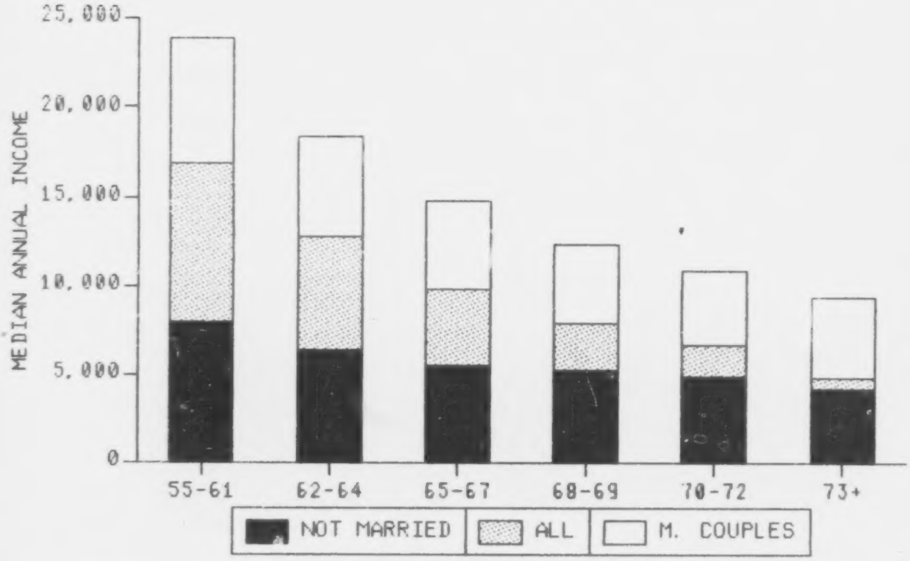
The difference in the income level of black families and white families was considerable. The income of elderly black families in 1981 was about 44 percent of that of elderly white families when adjusted for average family size. The relative differences were even greater when the family was maintained by a woman with no husband present.

While elderly married couples had economic resources approaching those of their sons and daughters, the picture is much different for the divorced, widowed, and others not living in families (chart 12).

There were 8.1 million elderly "unrelated individuals" in 1981, most of whom lived alone and some of whom lived with persons other than their relatives. Elderly unrelated individuals had a 1981 median income of $5,771, which was less than two-thirds that of unrelated individuals of all ages, a relative position that was also true in 1950. The median income of those who lived alone was $5,134. Single women were the most likely to have the lowest incomes and to be poor. A fourth of elderly unrelated individuals had

CHART 12

MEDIAN ANNUAL INCOMES
BY MARITAL STATUS AND AGE: 1980



SOURCE: Income and Resources of the Aged, Social Security Administration, No. 13-11727, Jan. 1980

incomes less than $4,000, another quarter had incomes between $4,000 and $6,000, and still another fourth had incomes between $6,000 and $10,000. The remaining quarter had incomes greater than $10,000, with 6 percent having incomes greater than $20,000. For unrelated individuals under age 65, about 70 percent had incomes greater than $10,000.

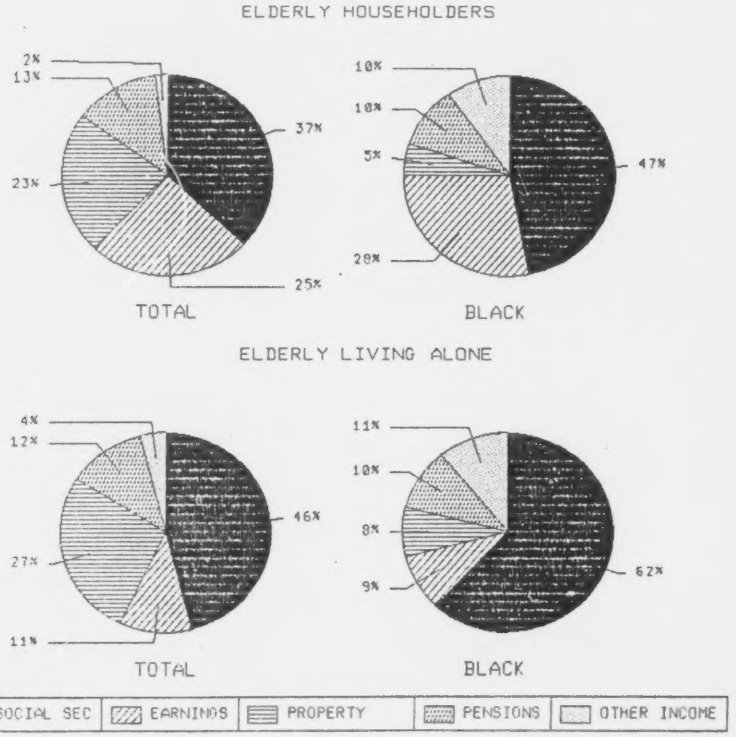
1. Sources of Income

Social security benefits are the single largest source of money income for the elderly and the single source on which the largest proportion is most dependent. Social security benefits reach 91.2 percent of the elderly population and, for over half, the benefits comprise over half of their income. For some, social security is vital: A fifth of the total elderly population and two-fifths of blacks living alone received virtually all (90 percent or more) of their income from social security.

While social security accounted for 37 percent of the total money income of elderly persons in 1981, earnings accounted for 25 percent, property income (mainly rents, dividends, and interest) for 23 percent, and private and public pensions for 13 percent (chart 13). A recent study by the Social Security Administration showed that one of the most significant changes in the source of income for the elderly since the 1960's was a decline in the importance of earnings and increased reliance on retirement income from social security, public and private pensions, and assets.[9] Social security income also increases in relative importance as a person ages.

CHART 13

SOURCE OF MONEY INCOME IN 1981
FOR ELDERLY HOUSEHOLDERS AND PERSONS LIVING ALONE
TOTAL AND BLACK POPULATION-1981



SOURCE: Bureau of the Census, Current Population Survey, March, 1982, unpublished

Earnings, property income, and pensions are less universal than is social security and are of varying significance. For example, most of the elderly who reported property income in 1978 received less than $1,000 from that source, and most receiving pensions got less than $2,000. While private pensions are now more likely to be received than in the past, in 1981 only 2 percent of the elderly relied on pensions for at least half of their total income.

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[9] U.S. Dept. of Health and Human Services. Social Security Administration. Melinda Upp, Relative Importance of Various Income Sources of the Aged, 1980. Social Security Bulletin, v. 46, No. 1, January 1983. pp. 9-10.

Earnings make the greatest difference in the economic position of older persons. Those who are year-round full-time workers have incomes close to those of younger people until the age of 70, when the median income dropped from $19,000 to $16,000. In 1981, there were about 8.9 million persons 55 to 64 years old who worked full time and year round (41 percent of the total), about 800,000 (10 percent) who were 65 to 69 years old, and about 400,000 (2 percent) who were 70 years and over. The likelihood of continuing to work after one becomes eligible for retirement is related to the ability to make more from work than from social security or pension benefits: Half of the elderly who worked year round and full time had incomes between $10,000 and $30,000. It is also likely that the health of those with higher earnings is good, which allows them to make a choice about working.

2. POVERTY: CASH INCOME

For the first time in their lives, many persons face poverty as they age, particularly after retirement. One out of seven elderly persons (15.3 percent or 3.9 million) lived in poverty in 1981, the same proportion as in 1975. This figure does not represent a statistically significant year-to-year difference from last year's 15.7 percent rate. This rate is a significant change, however, from 1970, when one out of four elderly persons lived in poverty, and from 1959, when more than a third had incomes below the poverty level (table 5).

Poverty rates are highest among the aged, women, minorities, those who live alone, and for those who are not married, do not work, depend exclusively on social security benefits, and live in small towns and rural areas.

TABLE 5.—PERCENT OF PERSONS 65 AND OVER IN POVERTY: 1959–81

	1959	1970	1980	1981
Persons under 65 years	20.9	11.3	12.7	13.9
Persons 65 years and over	35.2	24.6	15.7	15.3
In families	26.9	14.8	8.5	8.4
Householder	29.1	16.5	9.1	9.0
Male	29.1	15.9	8.2	8.0
Female	28.8	20.1	15.2	16.0
Other family members	24.6	13.0	[2] 7.8	7.6
Unrelated individuals	61.9	47.2	30.6	29.8
Male	59.0	38.9	24.4	23.5
Female	63.3	49.8	32.3	31.4
White	33.1	22.6	13.6	13.1
Black	62.5	47.7	38.1	39.0
Hispanic	(1)	(1)	30.8	25.7
Metropolitan	26.9	20.0	12.9	12.6
Nonmetropolitan	47.0	31.5	20.5	19.9

[1] Not available.

[2] Other family members in families with married couples only; the 1980 figure for other family members without married couples was 6.7 percent.

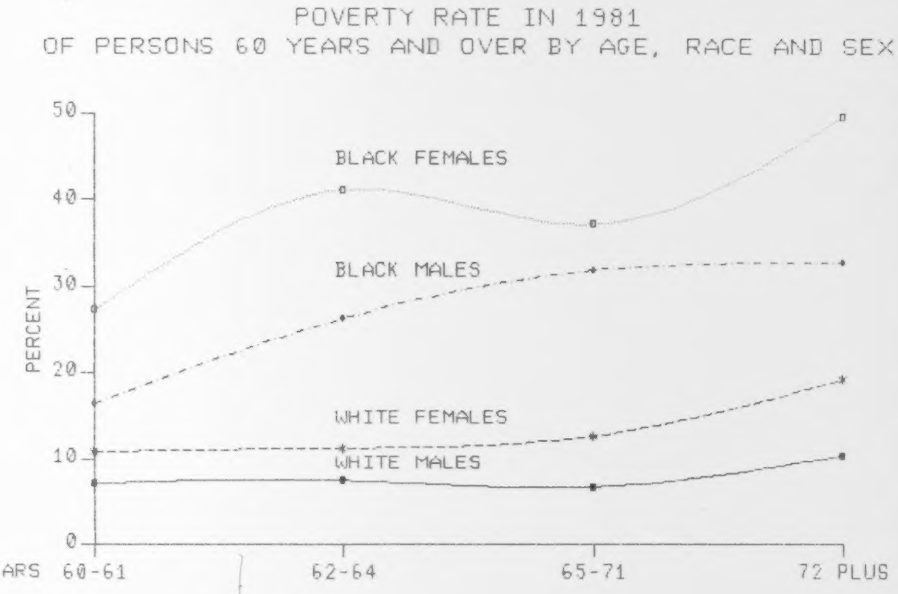
Source: U.S. Dept. of Commerce. Bureau of the Census. Current Population Reports. Series P-60, No. 134, and unpublished data.

In 1981, there were 17.3 million households and their poverty rate was approximately 18 percent; if the "near poor" (money incomes below 125 percent of the poverty level) are included, the poverty rate for this population was closer to 30 percent.

Poverty rates increase sharply with age, partly because of the substantial reductions in income as a result of retirement and partly because of the likelihood of major expenditures for health care. The poverty rate for those aged 60 and 61 years was about 10 percent in 1981 but jumped to nearly 18 percent for those aged 72 years and over.[10]

Poverty is also disproportionately high among women and blacks. Elderly white men had a poverty rate of 8.5 percent in 1981, but elderly white women were twice as likely as their male counterparts to be in poverty, black men four times as likely, and black women five times as likely (chart 14).

CHART 14



POVERTY RATE IN 1981
OF PERSONS 60 YEARS AND OVER BY AGE, RACE AND SEX

SOURCE: U.S. Bureau of the Census, 1982 Current Population Survey, unpublished

Poverty rates tend to be lower for those who are married than for those who are widowed, single, divorced, or separated. For example, a fourth of older black women who are married are poor, but half of the widows are poor. Those who are not married generally live alone and 29 percent of those who lived alone also lived in poverty compared with 8 percent of those who lived in families. Of all poor people 60 years and over, over half lived alone. This was especially true of women 60 years and over: About two-thirds of poor white women lived alone as did over half of poor black women. Black women living alone had the highest poverty rates, twice as high as those of white women living alone (chart 15).

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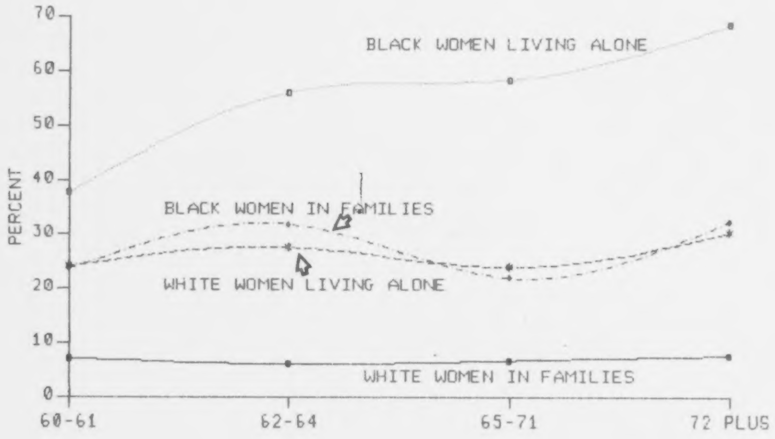
[10] U.S. Dept. of Commerce. Bureau of the Census. Money Income and Poverty Status of Families and Persons in the United States: 1981, Current Population Reports. Series P-60, No. 134, July 1982, table 15. p. 22.

CHART 15

POVERTY RATE IN 1981
OF WOMEN 60 YEARS AND OVER BY LIVING ARRANGEMENTS AND RACE



SOURCE: U.S. Bureau of the Census, 1982 Current Population Survey, unpublished

Of all poor persons 60 years and over, just over half lived in metropolitan areas and the remainder lived in small towns and rural areas (nonmetropolitan). The poverty rate in 1981 for those who lived in metropolitan areas was 11.5 percent. But for those who lived in the small towns outside of metropolitan areas and in rural areas, the poverty rate was 18.6 percent, and for aged black women in those areas, it was over 60 percent.

The incidence of poverty is closely associated with the type of income a person has. The lowest poverty rates were reported for older persons who had wage and salary income (4 percent), while over 30 percent of those who had only social security income were poor in 1981.

Of the 5 million persons 55 years old and over who were poor in 1981, less than 500,000 worked and only about a fourth of those worked full time and year round. Those who worked all year had poverty rates about half the rate of those who worked part of the year and about a fourth of those who did not work at all during the year. Of those poor who worked only part of the year, over one-quarter said they did not work a full year because they were ill or disabled, and about one in seven said they could not find work. Of those poor who did not work at all during the year, a third said they could not work because they were ill or disabled and 40 percent said they were retired.

Although over one in seven elderly persons had an income below the poverty level in 1981, only about one in nine received cash income from public assistance. For one-third of such recipients (or 1 in 27 persons over 65), public assistance provided more than half of their income.[11]

Poverty levels vary widely by State, as do the relative poverty levels for the elderly as compared with the younger population.

According to the 1980 census, the poverty rates for the elderly in most States in 1979 were slightly higher than the poverty rate for all persons. The exceptions included New York, Arizona, California, and Florida. In the latter three "Sun Belt" States, the lower poverty rates for persons 65 years old and over may be related to the presence of substantial numbers of relatively well-to-do retirees who have migrated from other States. The highest 1979 poverty rates for the aged were found in Mississippi (34.3 percent), Alabama (28.4 percent), and Arkansas (28.2); the States with the lowest rates were California, Connecticut, and Wisconsin (8.3, 8.8, and 9.6 percent, respectively).

3. POVERTY: NONCASH BENEFITS

In-kind public transfers in the form of food (food stamps), housing (publicly owned or subsidized rental housing), and medical care (medicare and medicaid), have expanded markedly in the last decade. The current Government definition of poverty, however, is based on money income only and does not include the value of in-kind transfers as income. If the value of in-kind food, housing, and medical care transfers received by the low-income elderly population were regarded as money income, the poverty rate would change.

A recent study determined that the various methods used to value in-kind benefits resulted in a large range of poverty rates depending on the methodology used and the type of benefits included.[12] Estimating the value of noncash benefits is difficult and controversial. Considering money income only, the poverty rate for elderly persons in 1979 was 14.7 percent. Using market values, if food and housing benefits were included, the poverty rate would have been reduced—but only to 12.9 percent. Adding the market value of medical benefits, including institutional care, reduced the poverty rate significantly but there is serious disagreement over the inclusion of medical care—especially institutional care—for determining poverty status. Except for medicare, most of the noncash benefits received by elderly households were means-tested; i.e., income criteria determined eligibility. Of the 1.1 million elderly households that received food stamps in 1981, 86 percent had incomes below 125 percent of the poverty level and received food stamps with a mean face value of less than $500 annually. About 949,000 (5 percent) elderly households lived in Government-subsidized housing. About 2.5 million (14 percent) elderly households received medicaid benefits, and, in 16.8 million elderly households, medicare covered at least one person. Elderly households made up approximately one out of six households receiving food stamps, about a third of the households in public or otherwise-subsidized housing, and 30 percent of those who received medicaid.[13]

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[11] U.S. Dept. of Health and Human Services. Social Security Administration. Office of Policy. Office of Research and Statistics. Income and Resources of the Aged, 1978, Social Security Publication, No. 13-11727, October 1981.

[12] U.S. Dept. of Commerce. Bureau of the Census. Technical Paper No. 50, Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty. Wahington, U.S. Govt. Print. Off., 1982.

The persistence of relatively high rates of poverty among the elderly despite the enormous sums devoted in the Federal budget for elderly program recipients ($197 billion in fiscal year 1982) presents a paradox. Basically, there are three explanations for this seeming paradox.

First, a large portion of elderly persons with incomes below the poverty line do not participate in the means-tested programs designed to assist them. In fact, nearly half (49 percent) of elderly households in the poverty category received neither cash nor in-kind assistance from means-tested programs.

Second, of the approximately $200 billion spent for the elderly, the overwhelming portion is committed to social insurance programs (chart 16). These certainly aid many low-income elderly persons, but they are not, by definition, programs targeted at the poverty population. Instead, the social insurance programs are earned entitlements which make benefits available to all those who qualify on the basis of age and other factors. An analysis of fiscal year 1982 Federal budget expenditures reveals that 92 percent of the total spent on elderly persons was allocated to retirement and health insurance programs that are largely self-funded through lifetime contributions from individuals and employers. Less than $16 billion, or 2.1 percent of the entire budget, was spent to assist low-income elderly persons through cash or in-kind means-tested programs.

The third reason that elderly poverty persists despite the current level of Federal spending is that the principal means-tested programs, such as supplemental security income, pay maximum benefits which are below the poverty level.

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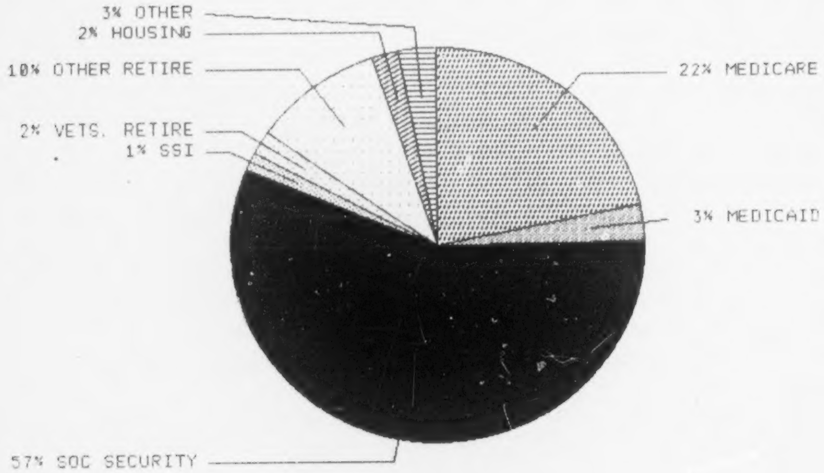
[13] U.S. Dept. of Commerce. Bureau of the Census. Characteristics of Households Receiving Selected Noncash Benefits: 1981 (Advance Data from the March 1982 Current Population Survey), Current Population Report. Series P-60, No. 135. Washington, U.S. Govt. Print. Off., 1982, tables B, C, and I.

CHART 16

FEDERAL OUTLAYS BENEFITING THE ELDERLY : FISCAL YEAR 1982



SOURCE: Executive Office of the President, Office of Management and Budget

NOTE: Other includes outlays for the Administration on Aging-HHS, the Older American Volunteer Programs (ACTION), the National Institute on Aging-HHS, the Senior Community Service Employment Program-Labor, the White House Conference on Aging-HHS, Food Stamps-USDA, Social Services Title XX-HHS, Energy Assistance-HHS, and other miscellaneous.

C. HEALTH STATUS

Contrary to stereotype, the older population as a whole is healthier than is commonly assumed. In 1981, eight of ten elderly persons described their own health as good or excellent compared with others of their own age; only 8 percent said their health was comparably poor.[14] About 40 percent of the elderly population reported that, for health reasons, a major activity had been limited (compared with about 20 percent of the population 45 to 64 years) but 54 percent reported no limitations of any kind in their activities.[15] Not until age 85 and over do about half of the population report being limited or unable to carry on a major activity because of a chronic illness.[16]

Good health is associated with higher incomes. Forty percent of those with incomes over $25,000 described their health as excellent compared with others of their own age, but less than a quarter of those with low income (less than $7,000) reported excellent health.[17]

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[14] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. 1980 Health Interview Survey, publication forthcoming.

[15] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. B. Bloom, Current Estimates from the National Health Interview Survey, United States, 1981, Vital and Health Statistics. Series 10, No. 141, DHHS Publication No. (PHS) 83-1569. Washington, U.S. Govt. Print. Off., October 1982. table 14, p. 24.

[16] U.S. Dept. of Health and Human Services. Federal Council on Aging. The Need for Long Term Care: Information and Issues. DHHS Publication No. (OHDS) 81-20704. Washington, U.S. Govt. Print. Off., pp. 27-29.

Persons 65 years and over have about twice as many days of restricted activity due to illness as the general population (almost 40 days versus 19 in 1981). But those elderly who worked do not experience a marked difference in the number of lost work days—about 4 or 5 days a year on the average for both the younger and older working population.[18]

The very old do have more need for assistance than the younger-old. For instance, in 1978, less than 1 percent of the noninstitutional population 65 to 84 years needed help in eating while about 4 percent of the population 85 and over did; about 7 percent of the very old needed help toileting versus less than 2 percent of the younger-old; 11 percent of the 85 and over group needed help dressing, and 18 percent needed help bathing, while the figures were about 3 and 4 percent respectively for the 65- to 84-year-old group. Based on these functional measures, more than 80 percent of the noninstitutionalized very old were able to take care of their own daily needs.[19]

The rural elderly are the most likely to have chronic health conditions that limit their activities, especially in the South, where in the 1973–74 period, 53 percent reported a chronic problem as compared with 43 percent of metropolitan elderly and 48 percent of all nonmetropolitan elderly. Duration of illness is higher for the nonmetropolitan elderly who reported 39 days per person per year of restricted activity (52 days in the nonmetropolitan South) as compared with 34 days in metropolitan areas. Thus, the nonmetropolitan elderly, because of the incidence and duration of chronic conditions, are more likely to require assistance, even though it is less available to them, than their healthier counterparts in metropolitan areas.

Despite relatively stable overall health status over the past 15 years, health expenditures by elderly persons continues to climb faster than increases in either income or the overall inflation rate.

Health care expenditures not covered by medicare now equal an average of 19.9 percent of all yearly income for those 65 and over. Even with the assistance of Federal health insurance programs, elderly persons are now paying an average of 29 percent of their total annual health bills out-of-pocket, a greater proportion than they were before the enactment of medicare and medicaid.[20]

1. MORBIDITY TRENDS

The pattern of chronic morbidity has changed in the past 80 years. Whereas acute conditions were predominant at the turn of the century, chronic conditions are now the most prevalent health problem for elderly persons. There has also been a change in the pattern of illness within one's lifetime. That is, as people age, acute conditions become less frequent and chronic ones more prevalent. The likelihood of having a chronic illness or disabling condition increases dramatically with age. Over 80 percent of persons 65 and over have at least one chronic condition and multiple conditions are commonplace in the elderly.

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[17] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics, publication forthcoming, Ibid.

[18] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. Current estimates from the National Health Interview Survey, United States, 1981, Ibid., table 12, p. 22.

[19] U.S. Dept. of Health and Human Services. Federal Council on Aging. Ibid., pp. 27-29.

[20] U.S. Congress. Senate. Health Care Expenditures for the Elderly: How Much Protection Does Medicare Provide, 97th Cong., 2d Sess., Prepared by the Staff of the Senate Special Committee on Aging. Washington, U.S. Govt. Print. Off., April 1972.

Even though there has been significant improvement in death rates, measures from the Health Interview Surveys from 1965 (the first year of the survey) through 1979 do not show any major improvements in the health status of the elderly. In the early part of this century, infectious and parasitic diseases were the major causes of illness among the elderly. Now, however, the major causes are chronic diseases, accidents (especially traffic accidents), and stress-related conditions.[21] The leading chronic conditions causing limitation of activity for the elderly in 1979 were arthritis and rheumatism, heart conditions, hypertension without heart involvement, impairments of the lower extremities and hips, and impairments of the back or spine. The first two conditions accounted for half of the total in 1979.[22] Stress-related conditions include hypertension, attempted suicides, drug dependency, and so forth. The principal diagnoses made by doctors for the elderly in the 1980-81 period were hypertension, diabetes, chronic ischemic heart disease, cataracts, and osteoarthritis.[23]

The diseases which affect elderly men predominate as causes of death while those which affect elderly women predominate as causes of illness. The health situation of elderly blacks is generally poorer than that of elderly whites. For example, hypertension was more prevalent among blacks 65 to 74 years old (45 percent) than whites (33 percent) in the 1971-75 period.[24]

2. MEDICAL CARE

With a greater prevalence of chronic conditions than the population at large, older persons utilize medical personnel and facilities somewhat more frequently than do younger people. Persons 65 and over average six doctor visits for every five made by the general population. The elderly are hospitalized approximately twice as often as the younger population, stay twice as long, and use twice as many prescription drugs.

Since 1965, the year medicare was enacted, elderly persons have increased their use of short-stay hospitals by more than 50 percent versus an 11 percent increase for the total population. The hospital discharge rate for the very old is over 75 percent higher than that for the 65- to 74-year-old group. The average hospital stay for persons under age 65 was about 6 days compared with almost 12 days for the 85-year-and-over group.[25]

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[21] Omran, Abdel R. Epidemiological Transition in the United States: The Health Factor in Population Change. Population Bulletin, v. 32, No. 2, May 1977. Washington, Population Reference Bureau, Inc.

[22] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Statistics. Limitations of Activity Due to Chronic Conditions, United States, 1974. Vital and Health Statistics. Series 10, No. 111, June 1977.

[23] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics, unpublished.

[24] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. Limitations of Activity Due to Chronic Conditions. Ibid.

3. MENTAL HEALTH

A destructive age-related stereotype is that senility is inevitable in old age and that it is the rare aged individual who is not in some state of mental deterioration. In fact, the term "senility" has been used generally to describe any number of symptoms and diseases, many of which are treatable. Estimates for the 1976–79 period indicate that from 15 to 25 percent of the elderly in the community may have significant symptoms of mental illness. It is estimated that for about 10 percent, these symptoms may be due to depression and for 5 to 6 percent, to senile dementia. Among nursing home residents, about 56 percent suffer a chronic mental condition or form of senility. Even though the elderly apparently suffer significant mental health problems, many of which could be treated, the older population uses mental health services at only about half the rate of the general population—7 versus 16 admissions per 1,000.[26] One trend has been the shift of older persons out of the mental health system and into nursing homes. From 1969 to 1973, the number of nursing home residents with diagnosed mental health problems doubled to a total of 194,000.[27]

4. INSTITUTIONALIZATION

Only about 5 percent of the elderly population live in nursing homes. In 1982, an estimated 1.3 million elderly persons resided in nursing homes. An estimated 1.5 percent (232,000) of those aged 65 to 74 years old were in a nursing home as compared with about 6 percent (527,000) of those aged 75 to 84 years, and only about 23 percent (557,000) of those 85 and over (table 6). The rate of nursing home use by the elderly has almost doubled since the introduction of medicare and medicaid in 1966, from 2.5 to 5 percent of the over-65 population. Almost three-fourths of nursing home residents are without a spouse as compared with just over 40 percent of the noninstitutionalized elderly. Such statistics, along with those which show that nursing home residents tend to have health problems which significantly restrict their ability to care for themselves, suggest that the absence of a spouse or other family member who can provide informal support for health and maintenance requirements is the most critical factor in the institutionalization of an older person. It is likely that the nursing home population will continue to grow rapidly, partly because of the rapid growth in the size of the very old population, and partly because of the increasing gap in life expectancy between husbands and wives.[28]

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[25] U.S. Dept. of Health and Human Services. Federal Council on Aging. Ibid., pp. 39–41.

[26] Ibid., pp. 32–33, 39.

[27] Ibid., pp. 46–47.

[28] Ibid., pp. 42–43.

TABLE 6.—POPULATION 65 YEARS AND OVER IN NURSING HOMES BY AGE

[Numbers in thousands]

Age	1963	1973	1977	1982 [1]
65 years and over	448	961	1,126	1,316
65 to 74	93	159	211	232
75 to 84	207	394	465	527
85 years and over	148	408	450	557

[1] Based on 1982 estimate and proportion of the population for each age group in nursing homes in 1977: 65+ years, 0.049; 65 to 74 years, 0.0144; 75 to 84 years, 0.064; 85+ years, 0.2259.

Source: The data for 1963, 1970–74, and 1977 are from the U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. Nursing Home Residents: Utilization, Health Status, and Care Received. 1977 National Nursing Home Survey, Vital and Health Statistics. Series 13, No. 51, HHS Pub. No. (PHS) 81-1712. Washington, U.S. Govt. Print. Off.

5. MORTALITY

In the United States, three out of four elderly persons die from heart disease, cancer, or stroke (table 7). Heart disease was the major cause of death in 1950, and remains so today even though there have been rapid declines in death rates from heart diseases since 1968, especially among females. Death rates from cancer have continued to rise since 1900, especially deaths caused by lung cancer. Cancer accounted for about a fourth of all deaths for those aged 65 to 74 years, a little less than a fifth of the deaths for the 75- to 84-year-old group, and about 10 percent for the very old.[29] Even if cancer were eliminated as a cause of death, the average lifespan would be extended by only 2 to 3 years (table 8) and more would then die from heart disease. Eliminating deaths due to major cardiovascular-renal diseases would add an average of 11.4 years to life at age 65, and would lead to a sharp increase in the proportion of older persons in the total population.[30] The third leading cause of death among the elderly, stroke, has been a decreasing factor since 1968.

TABLE 7.—DEATH RATES AND PERCENT OF TOTAL DEATHS FOR THE 15 LEADING CAUSES OF DEATH: UNITED STATES, 1979

[Rates per 100,000 population]

Rank [1]	Cause of death (Ninth Revision International Classification of Diseases, 1975)	Rate	Percent of total deaths
	All causes	869.5	100.0
1	Diseases of heart	333.1	38.3
2	Malignant neoplasms, including neoplasms of lymphatic and hematopoietic tissues	183.3	21.1
3	Cerebrovascular diseases	77.0	8.9
4	Accidents and adverse effects	47.8	5.5
	Motor vehicle accidents	24.3	
	All other accidents and adverse effects	23.5	
5	Chronic obstructive pulmonary diseases and allied conditions	22.7	2.6
6	Pneumonia and influenza	20.5	2.4
7	Diabetes mellitus	15.1	1.7
8	Chronic liver disease and cirrhosis	13.5	1.6

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[29] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. Health: United States, 1981. pp. 17–19.

[30] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. U.S. Life Tables by Cause of Death: 1969–1971, U.S. Decennial Life Tables for 1969–1971, v. 1, No. 5, 1976.

TABLE 7.—DEATH RATES AND PERCENT OF TOTAL DEATHS FOR THE 15 LEADING CAUSES OF DEATH: UNITED STATES, 1979—Continued

[Rates per 100,000 population]

Rank [1]	Cause of death (Ninth Revision International Classification of Diseases, 1975)	Rate	Percent of total deaths
9	Atherosclerosis	13.1	1.5
10	Suicide	12.4	1.4
11	Certain conditions originating in the perinatal period	10.7	1.2
12	Homicide and legal intervention	10.2	1.2
13	Nephritis, nephrotic syndrome, and nephrosis	7.1	.8
14	Congenital anomalies	6.1	.7
15	Septicemia	3.6	.4
....	All other causes	93.3	10.7

[1] Rank based on number of deaths.

Source: U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics, v. 31, No. 6, Supplement, Sept. 30, 1982.

TABLE 8.—GAIN IN EXPECTATION OF LIFE AT BIRTH DUE TO ELIMINATION OF SPECIFIED CAUSES OF DEATH: UNITED STATES: 1959–61, 1969–71, 1978

Cause of death	Total population			White male			White female		
	1959–61	1969–71	1978	1959–61	1969–71	1978	1959–61	1969–71	1978
1. Tuberculosis, all forms	0.10	0.04	0.02	0.10	0.03	0.02	0.05	0.02	0.01
2. Infective and parasitic diseases	.22	.17	.17	.20	.13	14	.14	.12	.14
3. Malignant neoplasms of digestive organs and peritoneum	.66	.60	.71	.63	.55	.63	.68	.62	.72
4. Malignant neoplasms of respiratory system	.32	.50	.73	.49	.69	.92	.11	.22	.43
5. Malignant neoplasms	2.27	2.47	3.09	2.12	2.31	2.85	2.43	2.57	3.12
6. Diabetes mellitus	.22	.24	.22	.15	.17	.15	.27	.28	.25
7. Diseases of the heart	5.89	5.86	7.01	6.51	6.14	6.49	5.04	5.17	6.94
8. Cerebrovascular diseases		1.19	1.14		.86	.74		1.36	1.42
9. Arteriosclerosis	.18	.13	.16	.15	.09	.10	.21	.17	.21
10. Influenza and pneumonia	.53	.47	.39	.46	.41	.33	.42	.40	.39
11. Bronchitis, emphysema, and asthma		.20	.14		.26	.17		.10	.10
12. Diseases of the respiratory system		.83	.84		.86	.85		.61	.71
13. Peptic ulcer	.09	.06	.04	.11	.06	.04	.05	.04	.03
14. Cirrhosis of liver	.19	.28	.27	.22	.30	.29	.15	.20	.18
15. Nephritis and nephrosis		.07	.06		.05	.05		.05	.05
16. Congenital anomalies	.36	.29	.25	.37	.30	.25	.36	.30	.25
17. Certain diseases of early infancy	1.12	.82	.49	1.12	.82	.44	.90	.66	.37
18. Motor vehicle accidents	.55	.70	.65	.78	.93	89	.30	.41	.39
19. All other accidents	.62	.63	.56	.77	.76	.69	.35	.35	.33
20. Suicide	.22	.26	.30	.31	.34	.42	.12	.18	.18
21. Homicide	.13	.23	.26	.09	.16	.22	.04	.06	.09

Source: Prithwis Das Gupta. Cause of Death Analysis of the 1978 Mortality Data by Age, Sex, and Race. Jan. 15, 1981, unpublished.

The factors which have led to reductions in mortality may or may not also lead to reductions in morbidity. If we continue to live only to about age 85 such changes could produce a healthier older population, but if we survive in future years, on average, beyond the age of 85, they could also mean a delay in the onset of illness without an actual shortening of the period of illness.[31]

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[31] Health: United States, 1981. Ibid., pp. 20–23.

D. SOCIAL AND OTHER CHARACTERISTICS

1. GEOGRAPHIC DISTRIBUTION

In 1981, as was true a decade earlier, almost two-thirds of the elderly population lived in metropolitan areas (standard metropolitan statistical areas); of that group, just over half lived outside the central city, a reversal from 1970, when more lived inside the central city. Elderly persons are less likely to live in the suburbs than are persons under age 65 (34 versus 41 percent). Of the elderly population living in nonmetropolitan areas, three out of four lived in counties that did not have towns as large as 25,000. The white, black, and Hispanic elderly are all more likely to live in metropolitan areas than in nonmetropolitan areas. White elders are more likely to be suburban dwellers, whereas black and Hispanic elders are more concentrated in the central cities. A decreasing proportion of persons 65 and over lived in farm areas, 3 percent in 1980 compared with almost 4.5 percent in 1970.

Even though most elderly live in metropolitan areas, they constitute about 10 percent of the metropolitan population compared to about 12 percent of the nonmetropolitan population. About 45 percent of the Nation's nonmetropolitan elderly live in the South while the Northeast and West combined have only about 25 percent. Growth of the elderly population in small towns and rural areas has been about 2.5 percent annually in recent years, a somewhat higher growth rate than that for the total older population.[32]

Counties with a high percentage of elderly are distributed all across the country. (For more complete data, see the special appendix listing county data in part II of "Developments in Aging.") There are now over 500 rural and small town counties in which persons 65 and over make up at least one-sixth of the total population; in 178 counties the elderly make up over one-fifth of the total population (see map 1 in the back of this volume). Over half of these counties, especially in the Nation's heartland, are agricultural areas where the older population has stayed on while the younger generation has moved out. Heavy outmigration of the young plus relatively low fertility in some areas contributed to a high proportion of elderly in counties in Iowa, Kansas, Missouri, Nebraska, South Dakota, Arkansas, Maine, Massachusetts, Rhode Island, and Pennsylvania. The remainder of the counties with an exceptionally high proportion of elderly are retirement areas to which the older population have relocated, such as those in Florida, the Ozark Plateau, and the Texas Hill Country. The number of areas attracting in-migration from retirees has expanded considerably since the 1950's and now extends beyond the Sun belt (see map 2 in the back of this volume).

In 1980, there were seven States with more than 1 million persons 65 years and over: California (2.4 million), New York (2.2 million), Florida (1.7 million), Pennsylvania (1.5 million), Texas (1.4 million), Illinois (1.3 million), and Ohio (1.2 million). With the inclusion of Michigan, almost half of the total elderly population of the

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[32] U.S. Congress. Senate. Special Committee on Aging. Calvin L. Beale, Rural Older Americans: Unanswered Questions. Hearing, 97th Cong., 2d Sess. May 19, 1982. Washington, U.S. Govt. Print. Off.

United States is accounted for in these eight States. Alaska had the smallest number of elderly persons—only 11,500—less than 3 percent of its total population. Florida is the State with the largest proportion of over 65's in the population—17.3 percent. Arkansas, Rhode Island, Iowa, Missouri, South Dakota, Nebraska, and Kansas followed with 13 to 14 percent. Most States had at least a 50-percent increase in the number of persons 85 and over in the last decade while Arizona, Florida, and Nevada more than doubled the size of their very old population.

TABLE 9.—NUMBER AND PERCENT OF EACH STATE'S TOTAL POPULATION AGED 65 AND OVER, 1980 CENSUS COUNT (APR. 1)

[Numbers in thousands]

State	All ages		65 plus				Percent increase 1970–80
	Number	Rank	Number	Rank	Percent	Rank	
Alabama	3,890	22	440	19	11.3	24	35.8
Alaska	400	51	12	51	2.9	51	71.4
Arizona	2,718	29	307	28	11.3	25	90.7
Arkansas	2,286	33	312	27	13.7	2	31.6
California	23,669	1	2,415	1	10.2	34	34.8
Colorado	2,889	28	247	33	8.6	46	32.1
Connecticut	3,108	25	365	26	11.7	18	26.7
Delaware	595	48	59	48	10.0	36	34.1
District of Columbia	638	47	74	46	11.6	20	5.7
Florida	9,740	7	1,685	3	17.3	1	71.1
Georgia	5,464	13	517	16	9.5	41	41.6
Hawaii	965	39	76	45	7.9	49	72.7
Idaho	944	41	94	41	9.9	37	40.3
Illinois	11,418	5	1,261	6	11.0	29	15.8
Indiana	5,490	12	585	13	10.7	31	18.9
Iowa	2,913	27	387	24	13.3	4	10.9
Kansas	2,363	32	306	29	13.0	8	15.5
Kentucky	3,661	23	410	21	11.2	27	22.0
Louisiana	4,204	19	404	22	9.6	39	32.5
Maine	1,125	38	141	36	12.5	11	23.7
Maryland	4,216	18	396	23	9.4	42	32.9
Massachusetts	5,737	11	727	10	12.7	10	14.8
Michigan	9,258	8	912	8	9.8	38	21.8
Minnesota	4,077	21	480	18	11.8	17	17.9
Mississippi	2,521	31	289	31	11.5	21	30.8
Missouri	4,917	15	648	11	13.2	5	16.1
Montana	787	44	85	43	10.7	32	25.0
Nebraska	1,570	35	206	35	13.1	7	12.6
Nevada	799	43	66	47	8.2	47	113.0
New Hampshire	921	42	103	40	11.2	28	32.1
New Jersey	7,364	9	860	9	11.7	19	23.9
New Mexico	1,300	37	116	38	8.9	45	65.7
New York	17,557	2	2,161	2	12.3	13	10.8
North Carolina	5,874	10	602	12	10.2	35	46.1
North Dakota	653	46	80	44	12.3	14	21.2
Ohio	10,797	6	1,169	7	10.8	30	17.7
Oklahoma	3,025	26	376	25	12.4	12	25.8
Oregon	2,633	30	303	30	11.5	22	34.1
Pennsylvania	11,867	4	1,531	4	12.9	9	20.8
Rhode Island	947	40	127	37	13.4	3	22.1
South Carolina	3,119	24	287	32	9.2	44	51.1
South Dakota	690	45	91	42	13.2	6	13.8
Tennessee	4,591	17	518	15	11.3	26	35.6
Texas	14,228	3	1,371	5	9.6	40	38.8
Utah	1,461	36	109	39	7.5	50	41.4
Vermont	511	49	58	49	11.4	23	23.4

TABLE 9.—NUMBER AND PERCENT OF EACH STATE'S TOTAL POPULATION AGED 65 AND OVER, 1980 CENSUS COUNT (APR. 1)—Continued

[Numbers in thousands]

State	All ages		65 plus				Percent increase 1970–80
	Number	Rank	Number	Rank	Percent	Rank	
Virginia	5,346	14	505	17	9.4	43	38.7
Washington	4,130	20	431	20	10.4	33	31.7
West Virginia	1,950	34	238	34	12.2	15	22.7
Wisconsin	4,705	16	564	14	12.0	16	19.7
Wyoming	471	50	38	50	8.0	48	66.7

The traditional notion of Florida as the State with the greatest concentration of elderly persons is borne out by the statistics. The three large metropolitan areas in 1980 with the greatest proportion of elderly in the United States were all in Florida—more than one-fifth of the population of the Fort Lauderdale-Hollywood and Tampa-St. Petersburg metropolitan areas were elderly. In the Miami area, one in six persons was elderly. These three metropolitan areas also had the largest proportions 75 and over (7 to 8 percent), and over 85 (1.3 to 1.7 percent), although these proportions were not much above the national average. The smallest proportion of metropolitan elderly were in Houston, Tex., with less than 7 percent elderly. Only the New York metropolitan area had over 1 million elderly residents.

2. Residential Mobility

Most older persons remain in the same place where they spent most of their adult lives. With increasing age, people move less often. The older population who moved from one house to another did so at about half the rate of the population of all ages. Between 1975 and 1980, about one-fourth of the population 55 to 64 years old moved, and about one-fifth of the entire elderly population moved, compared with 45 percent of the population age 5 and over.

While about 9 percent of the population age 5 and over relocated to a different State, only a little over 4 percent of the elderly population did so. Estimates of net migration for 1970–80 indicate movement of elderly persons away from the Middle Atlantic States and the East North Central States (e.g., New York, Illinois, Michigan, Ohio) and into retirement areas, rural areas, and small towns in the South and West, especially Florida, Texas, Arizona, California, and Nevada. Of the population 65 and over who lived in the West in 1980, about 7 percent were new residents since 1975, and 6 percent of the elderly in the South were new since 1975, as compared with 2 percent in the Northeast and North Central States who were migrants.

Most movement of the older population from 1975 to 1980 was within the same metropolitan area and usually did not involve a major relocation. For example, those who had lived in the central city tended to move someplace else within the central city, while those who had lived in the suburbs tended to move someplace else within the suburban area. Only about one-half percent of elderly movers moved from a suburban area to the central city. From 1975 to 1980, a net average of 45,000 elderly persons moved to rural areas and small towns each year. Persons aged 55 to 74 years old were almost three times as likely to move from a metropolitan to a nonmetropolitan area as the reverse; but for persons 75 and over, migration streams in each direction were equally likely. A variety of factors—medical care, decreased physical mobility, the onset of widowhood, and the wish to be near family—may explain this shift for those over 75. About 5 percent of the total older population moved from one nonmetropolitan county to another.

Of those who are 65 years and over, unmarried persons are more likely to move than are married persons, those in the labor force are less likely to move than those not working, the better educated are more likely to move, and the majority of elderly families receiving assistance income tend not to move. Further, many older persons who move to nonmetropolitan areas are motivated by positive images of rural or small town life or negative views of metropolitan life. Most have preexisting ties to the new area, such as family, friends, or property.[33]

3. MARITAL STATUS AND LIVING ARRANGEMENTS

Patterns of living arrangements and marital status differ sharply between elderly men and women. Five-sixths of the men live in a family setting and more than three out of four are married and living with their wives. Almost three-fifths of the women live in families but only two-fifths are married and living with their husbands. Elderly women are more likely to be widowed than married, and a substantial proportion live alone. Half of elderly women are widowed compared with only one out of eight elderly men. Nearly 70 percent of women 75 years and over are widowed compared with a fifth of aged men (chart 19). These differences are due both to the higher age-specific death rates of adult men and to the fact that men tend to marry younger women. Elderly widowed men have remarriage rates which are about seven times higher than those of women.[34] The "average" widow who has not remarried is 65 years old, has been widowed for 6 years, and can expect to live an additional 24 years as a widow.

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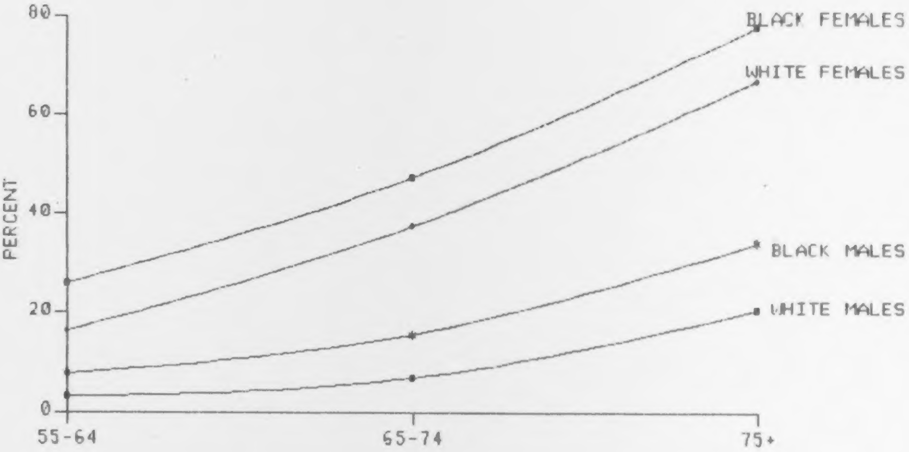
[33] Ibid.

[34] U.S. Dept. of Commerce. Bureau of the Census. Jacob S. Siegel. Demographic Aspects of Aging and the Older Population in the United States. Series P-23, No. 59. Washington, U.S. Govt. Print. Off. pp. 45, 47, 1982.

CHART 17

WIDOWHOOD OF PERSONS 55 AND OVER BY RACE AND SEX



SOURCE: Bureau of the Census, March 1982 CPS unpublished

In 1982, 4 percent of elderly men and 6 percent of elderly women had never married, and 3 and 4 percent respectively were divorced, an increase since the 1960's.

Elderly white males had the highest probability of being married, elderly black females the least. Yet, once married, black females were most likely to be widowed, white males the least. Black persons were much more likely to be either single, separated, or divorced than were white persons.

Of the over 7 million elderly persons living alone in 1982 (about 30 percent of the elderly population), most were women. Two-fifths of elderly women lived alone as compared with one out of seven elderly men. Of those 75 years and over, half of the women and about a fifth of the men lived alone.

4. EDUCATIONAL ATTAINMENT

Although educational attainment of the elderly population is well below that of the younger population, the gap in median school years completed has narrowed somewhat over the last 30 years and is expected to nearly close in the next 10 years. Even today, the proportion of the population aged 55 to 64 years which has completed high school is nearly equal that of the younger population (table 10).

In 1979, the percentage of the population 65 years and over which had graduated from high school was about three-fifths as great as in the entire population 25 years and over. Two-fifths of the elderly population were high school graduates as compared

TABLE 10.—YEARS OF SCHOOL COMPLETED BY PERSONS 55 YEARS OLD AND OVER, AGE, RACE, AND SEX: MARCH 1979

Age, race, sex	8 years or less	High school graduates	College, 4 or more years	Median school years completed
All races:				
Both sexes:				
25 plus	18.2	67.7	16.4	12.5
55 to 59	20.8	63.7	11.8	12.4
60 to 64	27.6	55.5	10.1	12.2
65 to 69	35.8	46.1	9.4	11.1
70 to 74	41.8	41.3	8.5	10.3
75 plus	54.3	33.1	7.5	8.8
Male:				
25 plus	18.6	68.4	20.4	12.6
55 to 69	22.3	62.9	16.0	12.4
60 to 64	29.3	54.7	12.1	12.1
65 to 69	38.3	44.0	10.2	10.7
70 to 74	45.6	37.6	9.1	9.8
75 plus	57.2	31.4	9.2	8.7
Female:				
25 plus	17.9	67.1	12.9	12.4
55 to 59	19.4	64.5	8.0	12.3
60 to 64	26.0	56.2	8.3	12.2
65 to 69	33.7	47.8	8.8	11.5
70 to 74	39.1	44.0	8.1	10.7
75 plus	52.6	34.0	6.5	8.9
White:				
Both sexes:				
25 plus	16.7	69.7	17.2	12.5
55 to 59	18.1	67.0	12.6	12.4
60 to 64	24.8	58.4	10.5	12.2
65 to 69	33.0	48.9	9.9	11.8
70 to 74	39.0	43.6	9.2	10.7
75 plus	52.3	34.8	8.1	8.9
Black:				
Both sexes:				
25 plus	29.4	49.4	7.9	11.9
55 to 59	47.7	31.0	4.4	9.4
60 to 64	56.0	33.8	6.1	10.1
65 to 69	59.5	19.5	3.3	8.2
70 to 74	71.1	17.8	2.4	7.0
75 plus	76.7	13.3	1.4	6.4

Source: U.S. Dept. of Commerce. Bureau of the Census. Educational Attainment in the United States: March 1979 and 1978, Current Population Reports. Series P–20, No. 356. Washington, U.S. Govt. Print. Off., 1980 table 2.

with two-thirds of the population 25 years and over. Nearly a fifth of older white Americans and half of older black Americans never went beyond elementary school. About a third of whites between the ages of 60 and 74, and half over the age of 75 never attended high school; among elderly blacks the respective percentages were about 60 and 75. A third of elderly whites completed high school while only about one in six elderly blacks reached that level.

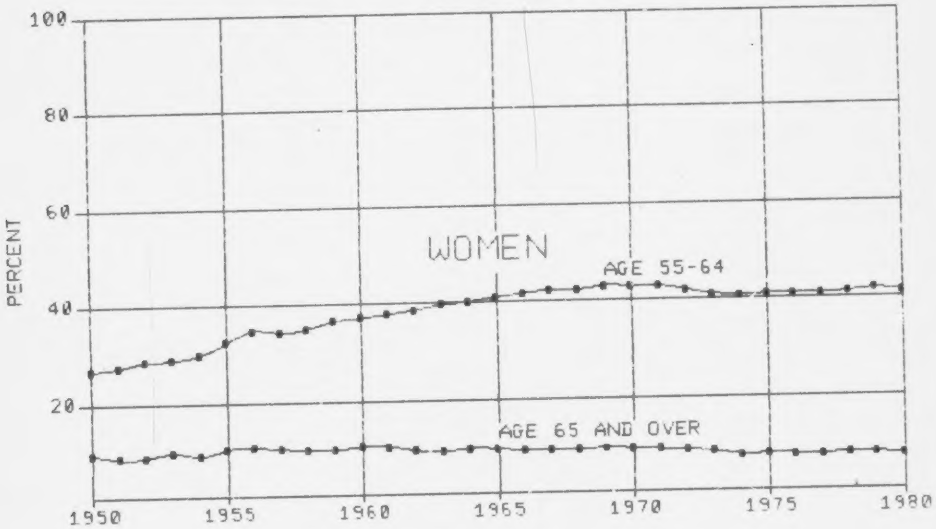
In terms of higher education, 9 percent of elderly whites attended 4 or more years of college as compared with about 2.5 percent of elderly blacks. The gap in educational attainment between age groups is expected to narrow significantly over the next 10 years, partly because of the educational opportunities that became available after World War II and partly because of our history of immigration. Today's elderly population has a much higher proportion of foreign-born than does the younger population. The elderly foreign-born have a higher rate of illiteracy and lower educational attainment than the native population.

5. LABOR FORCE PARTICIPATION

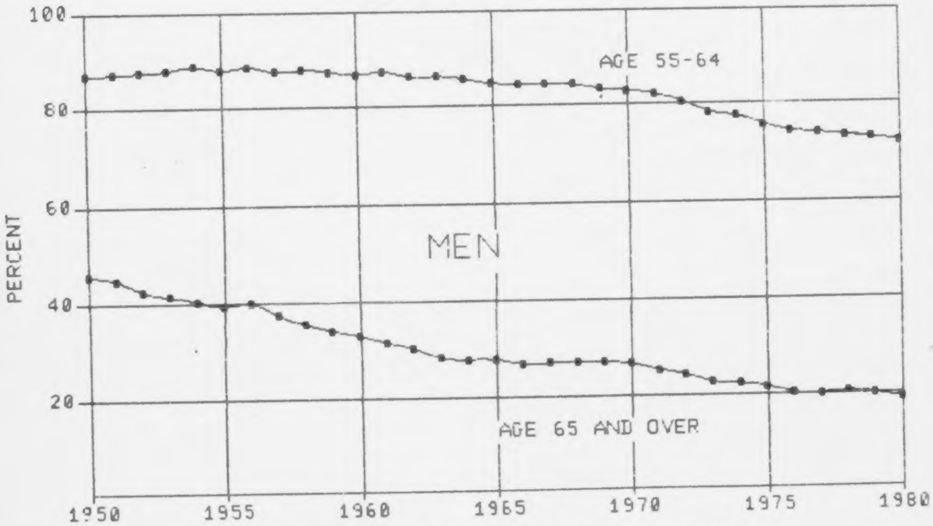
The labor force participation of elderly men has dropped rapidly over the last 30 years (chart 20). In 1950, almost half of all elderly men were in the labor force; by 1960, only a third were working or looking for work; by 1970, only a fourth; and by 1981, less than a fifth (18.4 percent—1.9 million) (table 11). The decreases are due in part to an increase in voluntary early retirement and a drop in self-employment. The decrease in male labor force participation extends even to men in their fifties. In 1960, over 88 percent of males in the 55- to 59-year-old group were in the labor force; by 1981, it had declined to just over 80 percent. In 1960, 77 percent of men aged 60 to 64 worked, but by 1981, less than 60 percent did. At age 70 and over, in 1960, one out of four men worked, but by 1981 the proportion had dropped to one out of eight.

TABLE 18

LABOR FORCE PARTICIPATION OF WOMEN AGED 55-64 AND 65 AND OVER
1950-1980



LABOR FORCE PARTICIPATION OF MEN AGED 55-64 AND 65 AND OVER
1950-1980



SOURCE: BUREAU OF THE CENSUS AND BUREAU OF LABOR STATISTICS

TABLE 11.—LABOR FORCE PARTICIPATION AND UNEMPLOYMENT RATES BY AGE AND SEX: NOVEMBER 1982 [1]

[In thousands]

	55 to 64 years old			65 or more years old		
	Total	Male	Female	Total	Male	Female
Seasonally adjusted:						
Civilian labor force	12,168	7,234	4,935	3,011	1,838	1,174
Labor force participation rate (percent)	55.4	70.7	42.1	11.8	17.6	7.7
Number unemployed	724	470	254	142	97	46
Unemployment rate (percent)	6.0	6.5	5.1	4.7	5.3	3.9
Number employed	11,444	6,763	4,681	2,869	1,741	1,128
Not seasonally adjusted:						
Number employed	11,481	6,777	4,704	2,920	1,767	1,153
Employed part time:						
For economic reasons	652	339	312	181	100	82
As a matter of choice	1,445	345	1,099	1,392	754	638
Employed full time	9,385	6,093	3,292	1,347	913	4,333
Number unemployed	670	397	273	131	87	44
Duration of unemployment:						
Less than 5 weeks	204	123	80	59	38	21
5 to 14 weeks	158	87	71	21	10	11
15 to 26 weeks	143	87	56	25	23	2
27 or more weeks	166	99	66	26	16	10
Average (mean) duration (in weeks)	20.9	21.6	19.9	15.6	16.9	13.1
Median duration (in weeks)	12.9	13.0	12.8	7.4	8.1	7.1

[1] The U.S. labor force includes workers who are employed and actively seeking employment. The participation rate is the percentage of individuals in a given group (e.g., age group) who are in the labor force.

Source: U.S. Department of Labor. Bureau of Labor Statistics. Current Population Survey.

Labor force participation of elderly women, on the other hand, has varied little. In 1950, about 10 percent of elderly women worked, and by 1981, the percentage had dropped only to 8 percent (1.2 million). For women over the age of 70, labor force participation dropped from 6 percent to just under 5 percent from 1950 to 1981. But women between the ages of 55 and 64 have increasingly joined the work force: In 1950, only 27 percent of these women worked, but by 1981 the proportion had risen to 41 percent.

Historically, among older black women, labor force participation has been distinguished by much higher rates than those for white women. Over the last 30 years, however, the rates have converged so rapidly that, by 1981, only a few percentage points separated the two groups. The extent of labor force participation for older black males is somewhat lower today than the rate for older white men, and it has fallen more rapidly.

Among the 3.1 million elderly workers, over half were in white-collar occupations. Sex and race were important determinants of the occupations of the employed elderly. Three-fifths of elderly white women workers were in white-collar professions and about two-thirds of black women workers were service workers, predominantly in private households. About one-half of elderly white male workers were in white-collar and one-quarter in blue-collar work. Over a third of elderly black males were blue-collar workers with nearly a fourth in white-collar jobs and another quarter in service jobs. Farm occupations were more common among the oldest men; nearly a fifth of black and a sixth of white working males 70 and over were farmworkers, compared with less than 4 percent for all males 25 years and over.

6. PART-TIME EMPLOYMENT

Part-time work is an increasingly important type of employment for the elderly. In 1981, of the elderly who were at work in nonagricultural industries, 48 percent of the men and 60 percent of the women were on part-time schedules as compared with 30 percent of the men and 43 percent of the women in 1960 (table 12). Most who are on part-time schedules report that it is their choice to work part time rather than being forced to work part time for economic reasons.[35] Over the last decade, elderly men have made up 5 to 6 percent of all persons on voluntary part-time work schedules, and elderly women have made up about 4 percent, as compared with women 18 to 64 years old who have made up about 50 to 60 percent of such workers.[36]

TABLE 12.—PERSONS 45 YEARS AND OVER AT WORK IN NONAGRICULTURE INDUSTRIES ON PART-TIME SCHEDULES BY SEX AND AGE: ANNUAL AVERAGES FOR 1960, 1970, AND 1981

[Numbers in thousands]

Sex and age	Number			Percent		
	Total at work	On full-time schedule	On part-time schedule	Total at work	On full-time schedule	On part-time schedule
1981:						
Males:						
45 to 64	14,476	13,675	801	100	94.5	5.5
65 plus	1,395	729	666	100	52.3	47.7
Females:						
45 to 64	10,101	7,532	2,569	100	74.6	25.4
65 plus	983	397	586	100	40.4	59.6
1970:						
Males:						
45 to 64	14,915	14,302	613	100	95.9	4.1
65 plus	1,536	946	590	100	61.6	38.4
Females:						
45 to 64	9,306	7,151	2,155	100	76.8	23.2
65 plus	921	473	448	100	51.4	48.6
1960:						
Males:						
45 to 64	12,815	12,088	727	100	94.3	5.7
65 plus	1,494	1,040	454	100	69.6	30.4
Females:						
45 to 64	7,059	5,499	1,560	100	77.9	22.1
65 plus	784	446	338	100	56.9	43.1

Source: U.S. Dept. of Labor. Bureau of Labor Statistics. Employment and Earnings, for January 1982, January 1971, and January 1961.

7. UNEMPLOYMENT

The unemployment rate for the elderly in 1982 (4.7 percent) was about half that of the population 16 years and over. Unemployment among older workers (55 and over) at the close of 1982 (6 percent) was the highest since the Government began measuring joblessness after World War II. More than 770,000 Americans 55 and over were out of work. This figure increases to 1.1 million if discouraged workers who have stopped looking actively for work are included.[37]

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[35] U.S. Dept. of Labor. Bureau of Labor Statistics. Employment and Earnings for January 1961, 1971, and 1982.

[36] Employment and Training Report of the President, 1981. Table A-25, p. 158.

Older workers, once they lose their jobs, stay unemployed longer than younger workers, earn less in a subsequent job than younger workers, and are more likely to give up looking for another job following a layoff. Persons 55 and over are out of work on the average nearly 20 weeks before being reemployed. That is 23 percent longer than the 15.5 weeks between jobs, on the average, for all unemployed Americans. Likewise, the older worker who successfully finds another job will, on the average, earn $1,500 less than he or she got earlier.[38] Finally, older workers are more than twice as likely as others to give up searching for a new job. There are about 334,000 discouraged workers 55 years and older who are no longer counted as unemployed because they've stopped looking for work.[39]

8. HOUSING

Housing, while an asset for most older people, represents a serious problem for others. In 1979, three out of four of the households maintained by an elderly person were owner-occupied; nearly half were owned free and clear. Two-thirds of all homes owned free and clear are maintained by an elderly person.

Homeownership is most often related to intact families, yet over a third (38 percent) of owner-occupied households were inhabited by older men and women living alone or with nonrelatives. Only one-third of renter-occupied units were maintained by elderly persons in families; the other two-thirds were maintained mostly by elderly men and women living alone.

9. VOTING BEHAVIOR

There are direct relationships between voter participation rates and the demographic and socioeconomic characteristics of the electorate. In the November 1980 election, one-third (30.7 million) of those who reported voting were 55 years or older. Of all age groups, voters age 55 to 64 had the highest participation rate (71 percent); with the 65- to 74-year-old group the next highest (69 percent). Voting participation is lower among the aged—58 percent of those 75 and over voted. These figures compare favorably to the rate of voter participation (59.2 percent in 1980) for the total population 25 and over.[40]

Overall, among the elderly, white men were the most likely to vote, followed by white women, then black men and black women. Among the elderly who were registered to vote but did not, two-fifths attributed the cause to illness. About a fifth of all registered voters did not vote because of lack of interest or lack of preference for either candidate, but the elderly mentioned these reasons only about half as often. Higher education levels, employment, white-collar occupations, higher income, homeownership, and duration of residence in the community were all characteristics associated with high voter participation.

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[37] U.S. Dept. of Labor. Bureau of Labor Statistics, unpublished data, November 1982.

[38] Mincer, J., and H. Ofek. Interrupted Work Careers: Depreciation and Restoration of Human Capital, Journal of Human Resources, vol. 17, Winter 1982. pp. 1-24.

[39] U.S. Dept. of Labor. Bureau of Labor Statistics, unpublished data, November 1982.

[40] U.S. Dept. of Commerce. Bureau of the Census. Current Population Reports, Series P-20, No. 370, Voting and Registration in the Election of November 1980. U.S. Govt. Print. Off., Washington, 1982.

E. SUMMARY

The older population is growing faster than the rest of the population and will be an increasing proportion of the U.S. population over the next 50 years. But the implications of this fact for American society and Government are not clear without greater differentiation of the trends. Older Americans are not now and will never be a homogenous group subject to sweeping generalizations. Improvements in income and longevity, for example, that have taken place over the last two decades have made the earlier years of retirement much better today than in 1960. But the situation is quite different for the very old population. This group has both a lower average income and a much greater need for health services and living assistance than do younger age groups. Similarly, widows living alone and most minority elderly face very different and more difficult situations today than do married, white elderly couples.

While America, as is also true for the rest of the world, is today an aging society, the rate of change will be an uneven one. Essentially, we will enjoy a period for the next 30 years when there will be sustained but undramatic growth in the elderly population. But then, in 2010, there will come a remarkable surge in the numbers of older persons as the post-war baby boom matures. In less than 30 years, an aging society will be upon us, whether we have prepared for it or not. If we anticipate and plan for this momentous social event now, individuals and families can still adjust their own expectations and plan for their futures. The foreseeably great magnitude of these events challenges our capacity to adapt public policy far enough in advance to be successful and sets the overall context for the decisions made today regarding the aged and aging in America.

Chapter 2

ECONOMIC PERFORMANCE, FEDERAL BUDGET, AND TAX POLICY

A. U.S. ECONOMIC PERFORMANCE DURING 1982[1]

The U.S. economy underwent severe strains during 1982. As was the case throughout most of 1981, the statistical readings on economic activity continued to fall on the decidedly negative side of the ledger. The Nation's gross national product (GNP), after adjustment for inflation, actually declined by 1.8 percent in 1982.

The year began with cautious optimism that the combined effects of the scheduled July 1 personal income tax cut together with lower rates of inflation, would help spur a consumer-led recovery in economic activity beginning in the second half of the year. Instead, as the year progressed, major obstacles developed. They included a Federal budget in disarray, an erratic monetary policy directed at further curbing the rate of inflation, and an overvalued dollar that virtually brought to a halt the growth of U.S. exports.

The successful fight against "public enemy No. 1"—inflation—produced a litany of negatives during 1982, and, in particular, the already high rate of unemployment increased sharply from 8.5 percent of the labor force in January to 10.8 percent during November. The increase in November to 10.8 percent marked the eighth consecutive month that the unemployment rate equaled or set a postwar record. Meanwhile, initial claims for unemployment insurance soared, reaching a peak of 703,000 during September.

By most measures, the unemployment situation during this recession is worse than that of any of the prior downturns of the postwar era. Not only are more workers unemployed (11.9 million during November), those unemployed have, on average, been displaced for a longer period. During November, a postwar high of 37.5 percent of the unemployed were without jobs for 15 weeks or more. Clearly, 1982 was the year in which unemployment reemerged replacing inflation as "public enemy No. 1."

The pattern of economic distress, initially concentrated in the interest-sensitive automobile, housing, and steel sectors, remained fairly widespread. Domestic auto sales registered 4.6 million units during June, the worst performance since December 1959, and 25 percent below the 6-million-unit pace for the first 5 months of 1982.

Housing and steel industry activity were not noticeably better. During May, the number of housing starts rose above 1 million units for the first time in 9 months, and steel production declined steadily, reaching 55.2 percent of its 1967 level during the month of October. Although these industries received most of the attention during 1982, there were other durable-goods-producing industries that were also severely affected. These include fabricated metal products, electrical and nonelectrical machinery, and lumber and wood products. Each of these sectors registered significant declines in production with corresponding job losses.

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[1] This section on economic performance was prepared by Everson W. Hull of the Congressional Research Service, based on information available in mid-January 1983.

What are the main factors that account for the economy's protracted decline and its poor performance during 1982? The answer appears to lie in a dichotomous policy mix calling for a restrictive monetary policy directed at bringing epidemic inflation to a halt; and a loose fiscal policy directed at stimulating savings and investment and also aimed at reversing inflation-induced losses in disposable puchasing power.

Beginning in October 1979, the Federal Reserve Board successfully engineered a reversal in inflationary trends and then a deceleration in monetary growth that was of sharper magnitude and of longer duration than that of any comparable period during the past two decades. The decline in the rate of inflation has been impressive—and dramatic—occurring over a relatively short timespan. Over a 2-year interval, the inflation rate as measured by the Consumer Price Index for urban consumers fell from a cyclical peak of 17.2 percent in the first quarter of 1980 to an average annual rate of 6.1 percent in 1982.

TABLE 1.—CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS

[Percent change from previous year]

	1981	1982
All items	10.4	6.1
Food and beverages	7.8	4.1
Housing	11.5	7.2
Apparel and upkeep	4.8	2.6
Transportation	12.1	4.1
Medical care	10.8	11.6
Entertainment	7.8	6.5
Special indexes:		
Energy	13.5	1.5
All items less food	10.9	6.6
All items less mortgage interest	9.1	5.9
All items less medical care	10.3	5.9
All items less energy	10.0	6.7
All items less food and energy	10.4	7.4
Experimental index: X-1, all items	9.5	6.1

Source: U.S. Department of Labor, Bureau of Labor Statistics.

However, the unavoidable, adverse effects of decelerating money growth on economic output were exacerbated by the instability along the deceleration path. The spasmodic behavior of monetary growth helped create uncertainty in financial markets that led to a continuation of expectations of high inflation and, in turn, high nominal rates of interest. The combined effects of reduced availability of money and credit, together with the increased level of uncertainty in financial markets, helped keep interest rates high (at least through June 1982), causing a reduced level of aggregate demand in the economy, a reduced level of production, and a concomitant surge in unemployment.

The immediate effects of the sharp drop in the rate of inflation have been a mixed blessing. In general, the status of economic agents improve when lower rates of inflation raise real purchasing power. But, over and above the predictable employment and output losses, there may be other temporary ill-effects. For example, product price reductions exceeding those of key inputs to the production process may, for a time, combine with a drop in business sales activity, to severely reduce the cash flow of corporations, contributing to a rise in the number of business failures.

That same cash squeeze which precipitated a large number of business failures also encouraged the continuation of a surge in business loan demand, helping to keep short-term interest rates high despite the drop in inflation and the slack economic conditions. Evidence of the strength of business loan activity is reflected in the demand for commercial and industrial loans at large commercial banks, which increased at an annual rate of 17.5 percent for the year ending June 23, 1982. With the Federal Reserve's restrictive monetary policy causing a reduction in the availability of money and credit, and with a strong private demand for loanable funds, interest rates, during the first half of the year, displayed a considerable amount of downward rigidity.

Meanwhile, the economy's protracted decline brought sizable Federal revenue losses as the number of unemployed workers increased and as the level of recession-induced expenditures surged. As a consequence, a typical rise in the Federal deficit occurred to cushion the slide of the economy. For the calendar year 1982, Data Resources, Inc., estimates the Federal Government's deficit at $145.9 billion. Although this deficit is high in absolute terms, it represents only 4.8 percent of nominal GNP, and is roughly in line with the deficit's share of GNP during 1975, another year of considerable economic slack. But, even after adjustment for the deficit-increasing effects of recession, there were also policy actions that contributed to the widening deficit. The implementation of the first and second phases of the personal income tax reductions embodied in the 1981 Economic Recovery Tax Act, together with a surge in defense spending that outpaced a reduction in the growth of nondefense spending, were major contributing factors.

Even though a considerable portion of the tax cut was offset by increases in social security taxes and by increases in taxes at the State and local government level, there was a public outcry against the growing size of projected Federal Government deficits. These public concerns led the administration to propose—and the Congress to approve—a $98-billion tax hike under the Tax Equity and Fiscal Responsibility Act of 1982. These fiscal actions, the social security tax hike, and the State and local government tax hikes, all helped to reduce the cash flow of households, wiping out a sizable portion of the stimulus to the economy necessary to offset the restrictive effects of monetary policy.

During 1982, the Economic Recovery Tax Act did achieve at least one important objective. The personal income tax cut and the savings incentives had the intended effect of raising the rate of savings in the economy. The GNP accounts measure of household savings as a percentage of disposable income increased significantly in the month of implementation of the first two phases of the tax cut, and tapered off gradually in the immediate months following. The savings rate for the full year ending October 1982 was 6.9 percent compared to 6.1 percent during the previous 12-month period. Despite that positive development, this increase in savings placed a drag on the economy in the short run, causing a reduced rate of consumer spending.

The tax cut initiatives, which did little to provide spontaneous growth in consumer spending during 1982, did even less for reviving investment activity. The key determinants of investment spending did not provide a favorable climate for expansion. The rate of capacity utilization sank below its previous postwar trough (69 percent, recorded in the 1975 recession) to 67.3 percent during December. Also, real long-term rates of interest remained high despite some easing from 1981 levels. Moreover, real after-tax corporate profits, another key determinant of investment spending, fell 28.5 percent from $150.9 billion in 1981 to $117.4 billion in 1982. Still another important determinant of investment decisions, real final sales, fell by 0.8 percentage points. The combined effect of those weak incentives produced a 4.4-percent drop in real business fixed investment.

Despite the large number of negatives during 1982, there were a few bright spots. Perhaps the most important of those was the Federal Reserve's success in accomplishing its objective of reversing inflationary trends in the economy. It now appears clear that the 16-year trend, during which inflation accelerated unabated through economic expansions as well as contractions, has now been interrupted. For the first time in seven postwar recessions, inflation will advance from a lower base than that associated with the preceding recession.

A few encouraging developments provide reasons for optimism about the outlook for inflation:

(a) The core rate of inflation as measured by Data Resources, Inc., i.e., the trend in labor and capital costs, which was nearly zero during the mid-1960's, rose fairly steadily to a peak of 9.3 percent in 1980. During 1982, the core rate of inflation slowed to 7.8 percent.

(b) The cost of labor—a key component of the core inflation rate—has shown marked deceleration in its rate of increase. Average hourly earnings, which increased at an annual rate of 8.7 percent between 1978 and 1981, slowed to 5.6 percent for the year ending November 1982.

(c) The Consumer Price Index for food and beverages, which increased at an average annual rate of 10.5 percent during the period 1977 to 1981, showed a dramatic reduction in its rise to 4.1 percent during 1982.

(d) The Consumer Price Index for energy which rose at an average annual rate of 22.4 percent during the period 1974 to 1981 increased at a rate of only 1.5 percent for the year ending November 1982.

Many analysts argue that the economy paid too high a price in achieving these gains. A case can be made that unemployment would have advanced at a slower rate if disinflation were not accomplished at such a rapid rate. Whatever the merits of this argument, it is generally agreed that changes in inflation, broadly defined, can only be influenced by changes in aggregate demand and/or aggregate supply. From an economic welfare standpoint, an increase in aggregate supply (a supply-side impulse) would be the economic and painless way of achieving disinflation. The productivity performance of the U.S. economy in recent years suggests that the decline in inflation was *not* achieved in response to a change in aggregate supply induced by a revolution in technical progress. It seems instead that the decline in inflation was accomplished by way of the painful approach—through a reduction in aggregate demand, in direct response to discretionary action taken by the Nation's central bank.

The adverse effects on employment and output stemming from a *single* contractionary policy, directed at reducing inflation through changes in aggregate demand, are virtually unavoidable. Whether that policy initiative has its source in a contractionary monetary or fiscal policy, the effects of growing unemployment are the same, although the mechanisms through which the growth occurs may be quite different.

With the rise in unemployment and with the subsiding of inflationary pressures, the Federal Reserve Board, acting in a somewhat more pragmatic manner, began pursuing a more accommodative role. The Federal Reserve Board has stated that the phasing out of all savers certificates, together with continuing leakages of investment to money market mutual funds would, temporarily, complicate the interpretation of the monetary statistics. As a result, less attention would be paid to the behavior of basic money stock (M-1) relative to the performance of the economy.

In this more accommodating environment, the money stock has increased sharply, growing at an annual rate of 16.2 percent for the 13-week period ending December 29, compared to a rate of only 8.7 percent for the 52-week period ending on the same date. At the same time, interest rates fell sharply. On July 20, the Federal Reserve lowered the discount rate from 12 to 11.5 percent, the first change in this rate since early December 1981. This turn was an essential ingredient to the progress of the financial markets. The 91-day U.S. Treasury bill rate fell from 11.71 percent on July 16 to 7.93 percent on December 10. Also, the long-term, AAA high-grade corporate bond rate fell from 14.65 to 11.78 percent during this same period. The decline in short-term interest rates has been associated with a sharp drop in business loan demand. Commercial and industrial loans have fallen at an annual rate of 6.6 percent for the 13-week period ending December 29, 1982, compared with an increase of 11.7 percent for the previous 52-week period ending on the same date.

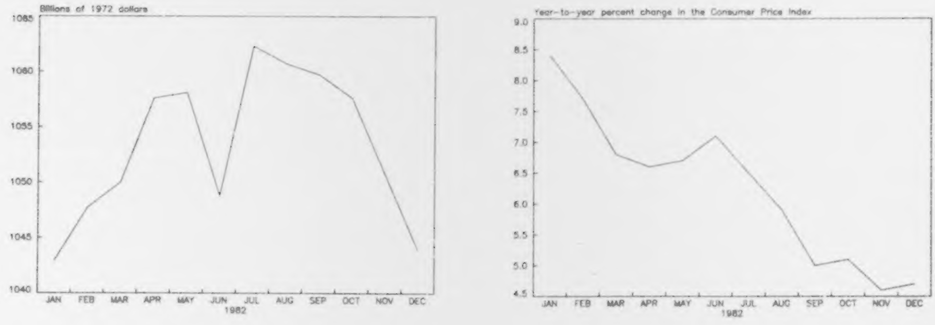
These positive developments have spurred a record volume of business activity in the stock market, and also have helped to improve the prospects for recovery, particularly in the housing and automobile industries. Sales of new single-family homes have strengthened, rising 12 percent in November to 1,428 million units, their highest level in 2 years; however, the data for December indicate a decline to 1.06 million units. Additional signs of recovery can be found in the late 1982 auto sales performance. In direct response to discounts in interest rate financing, domestic new car sales averaged 6.5 million units during November and December, up from 5.5 million units in October. Evidence of a broader based recovery is also reflected in the index of leading economic indicators, which rose 0.8 percent in November, the seventh rise in the last 8 months. Although the peak in unemployment may still lie ahead, the number of average weekly new claims for unemployment insurance has fallen steadily on a monthly average basis for the 3-month period ending in December.

Also reinforcing the prospects for recovery is the improved liquidity of consumers. Installment debt outstanding as a percent of disposable personal income fell fairly steadily to 15.1 percent in November, well below the 18.1-percent share of late 1979. Consumers have benefited from gains in household financial net worth emanating from record high stock prices. These price advances have a positive influence on economic activity through their effects on wealth and consumer spending.

While the prospects for a consumer-led recovery appear to be good, the outlook for a quick recovery in investment spending is less certain. The 1982 Tax Equity and Fiscal Responsibility Act repealed a number of important incentives offered for investment in machinery and equipment under the Economic Recovery Tax Act of 1981. With utilization rates of labor and capital resources at their lowest level since World War II, recent productivity gains have been remarkably strong for this stage of the business cycle. The 4.2-percent gain in productivity during the third quarter was the largest recorded during a recession. This sizable cyclical advance in productivity may well combine with lower interest and inflation rates to help spur an advance in real corporate earnings producing a more favorable environment for capital formation.

In conclusion, the year 1982 was one in which the U.S. economy continued to pay a high price in terms of output and employment, while reversing the inflationary trends of the last 16 years. Considerable progress was made in reducing inflation and interest rates—important elements of a sustained and long-term growth. The stage has also been set for sharply lower growth in Government spending and taxation, as well as for a revival in savings, investment, and productivity. But there are also difficulties ahead: Prospects for record high Federal budget deficits; indications of a return to an overly expansionary monetary policy; and social security financing problems are all concerns that have to be addressed in the near term. Successful resolution of these difficulties would offer an improved chance that the next cyclical upswing in the economy would *not* be characterized by double-digit inflation and interest rates, which can prematurely halt any expansion in economic activity.

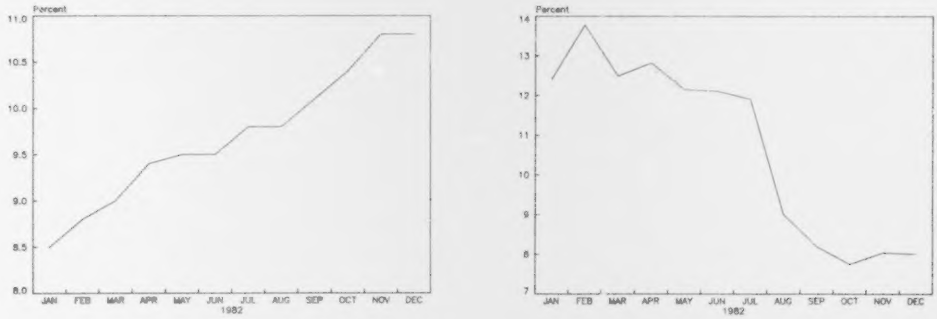
ECONOMIC PROFILE OF 1982


REAL DISPOSABLE INCOME

INFLATION RATE

UNEMPLOYMENT RATE

RATE ON 91-DAY TREASURY BILLS



B. THE FEDERAL BUDGET AND OLDER AMERICANS

Debate over the Federal budget, and, in particular, debate over the appropriate remedies for dealing with burgeoning Federal budget deficits, dominated congressional activity during most of 1982. Indeed, Members of Congress are increasingly voicing concern that the budget process is itself so demanding and time-consuming that it prevents the Congress from giving adequate legislative consideration to other worthy pieces of legislation on the congressional agenda.

The individual chapters in this annual report document the specific budgetary changes that were made in 1982, and their effect on programs serving elderly persons. Rather than attempt to detail each budgetary decision, this section will outline the general contours of aggregate Federal expenditures relating to the elderly.

It is worth recalling, however, that the year 1982 marked a period during which the administration put forward a series of budget recommendations for cuts in domestic spending, which the Congress softened—and in many cases rejected outright—in an effort to alleviate the hardship such proposals would have imposed on the elderly.[2]

The size of program expenditures for the elderly and their rank within the Federal budget is a measure of the priority placed upon the welfare of older Americans by the Congress. According to current estimates made by the Office of Management and Budget, between 25 and 30 percent of the total Federal budget is now spent on programs directly helping the elderly.

Frequently, estimates about the share of the budget devoted to the elderly vary because of the methodological problems of measuring how much of a given program directly affects elderly persons. For example, there are four major programs that specifically benefit older Americans: Social security old-age and survivors insurance, medicare, supplemental security income, and the programs administered by the Administration on Aging. Numerous other Federal programs benefit elderly persons in a substantial way, e.g., medicaid, disability insurance, veterans' benefits, civil service and military retirement, food stamps, and low-income energy assistance. There are varying ways to measure the degree to which the elderly participate in such programs—depending, for example, whether the elderly are defined as those age 55, 60, or 65 and older, whether benefits to dependents and young survivors of elderly are included, and whether the cash equivalent value of services or in-kind benefits like medical care are included, based upon a particular economic model. Clearly, the conclusions drawn by any such analysis simply reflect the methodology employed.

Table 2, prepared by the Office of Management and Budget, lists the programs and program expenditures which can be identified as benefiting persons age 65 and older.

TABLE 2.—FEDERAL OUTLAYS BENEFITING THE ELDERLY [1]

[Dollars in millions]

	1982 actual	1983 estimate	1984 estimate
Medicare—HHS	$42,633	$48,520	$54,992
Medicaid—HHS	6,044	6,696	7,199
Other Federal health—miscellaneous	2,990	3,411	3,507
Health subtotal	51,667	58,627	65,698
Social security—HHS	111,589	122,243	129,639
Supplemental security income—HHS	2,686	[2] 3,095	[2] 2,747
Veterans compensation and pensions—VA	3,901	4,133	4,328
Other retired, disabled, and survivors benefits—miscellaneous	19,969	21,735	22,816
Retirement and disability subtotal	138,145	151,206	159,529

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[2] U.S. Congress. Senate. Special Committee on Aging. Congressional Action on the Fiscal Year 1983 Budget: What It Means for Older Americans. An Information Paper Prepared by the Staff of the Special Committee on Aging. 97th Cong., 2d Sess., November 1982. Washington, U.S. Govt. Print. Off., 1982. Also see Demkovich, Linda E.: Reagan's Policies Strike the Hardest at the Poorest of America's Elderly. National Journal, v. 15, Jan. 8, 1983, pp. 68-72.

TABLE 2.—FEDERAL OUTLAYS BENEFITING THE ELDERLY [1]—Continued

[Dollars in millions]

	1982 actual	1983 estimate	1984 estimate
Administration on Aging—HHS/USDA	626	[3] 663	[3] 896
Older American volunteer programs—ACTION	86	87	88
National Institute on Aging—HHS	89	89	94
Senior community service employment program—Labor [4]	269	278	211
White House Conference on Aging—HHS	3	1	0
Subsidized housing (section 8 and public)—HUD	3,272	3,932	4,269
FMHA housing—USDA	35	41	47
Elderly housing loans (section 202) [5]	752	758	768
Food stamps—USDA	675	730	659
Nutrition/Puerto Rico [6]	0	50	50
Social services title XX—HHS	308	309	300
Energy assistance—HHS	280	314	222
Other—Miscellaneous	1,091	1,394	1,146
Other subtotal	7,486	8,646	8,751
Total dedicated elderly resources	197,298	218,479	233,979
Percent of total Federal outlays	27.1	27.1	27.6

[1] Reflects outlays, including effects of proposed legislation, for recipients aged 65 and over in most cases. These are estimates based on Federal agency information—which may be administrative counts, samples, or less accurate estimates from Federal, State, and program staff. Other Federal programs that assist the elderly (e.g., consumer activities, USDA Extension Services, National Park Services) have been excluded due to data limitations.

[2] Fiscal year 1983 outlays represent a 13-month benefit period; fiscal year 1984 outlays reflect an 11-month benefit period.

[3] Includes elderly feeding cash/commodity support from USDA.

[4] Legislation is being proposed to broaden HHS title III program to include senior service employment. DOL fiscal year 1984 outlays represent spendout from prior years budget authority only.

[5] Reflects net disbursements for new direct loans.

[6] New program in fiscal year 1983. Fiscal year 1982 and prior year outlays for nutrition assistance/Puerto Rico included in food stamps program outlays.

Source: Executive Office of the President. Office of Management and Budget. February 1983.

Aside from the methodological problems associated with measuring aggregate Federal expenditures for the elderly, there are related problems of interpretation. While the Federal Government is spending far more for these programs than it spent 10, 20, or 30 years ago, the graphic presentation of such historical numbers, which usually depicts a sharply rising curve, is often misleading. It is often used to convey the idea that Federal spending for the elderly is out of control and that the elderly consume a far larger portion of the budget than their numbers warrant.

A more sophisticated analysis of the expenditure data supports a different conclusion. By far the largest single Federal program is social security, accounting for nearly 60 percent of Federal outlays for the elderly. The social security system, however, is essentially self-financed out of payroll taxes paid by workers and employers. As a self-contained income transfer system, it is not subject to the same budget decisions as can be made with respect to the discretionary funding of other programs. If social security were excluded from the unified budget as it was before fiscal year 1969, on-budget expenditures for the elderly would be less than half of what they now appear to be.

Although there were reasons for including social security within the unified Federal budget, its inclusion raises serious analytical problems when it is compared on the same terms to the rest of the budget. For example, the horizon of the budget process is only 1 year—with 5-year forecasts at most. The horizon of social security is a working career and retirement, and its trustees project estimates of income and outgo over a 75-year period.

Social security is a long-term commitment. When the benefit provisions were enacted and the financing schedules set by law, it was clearly understood that the benefits from these programs would rise with the growing numbers of retired persons, rise with the standard of living, and rise to keep pace with inflation. Thus, what appears from aggregate budget numbers to be a striking growth in expenditures for the elderly is only the normal maturation of previously legislated retirement income commitments. Further, although the Federal Government is primarily funded through general tax revenues paid during the tax years, social security and other retirement benefits represent an outlay to beneficiaries in the current budget year in exchange for cumulative payments by individuals over prior years. The retirement programs thus reflect a sense of investment over time, even though they are operated on a pay-as-you-go basis.

Social security is the largest self-funded program, but by no means the only one. If expenditures for all partially self-funded programs are excluded from 1982 Federal spending estimates, less than 4 percent of the Federal budget would be devoted to programs assisting the Nation's elderly.

It can also be misleading to compare current Federal budget expenditures for the elderly with dollars spent in prior years, if no adjustment is made for the changing value of the dollar. For example, per capita spending for the elderly, according to one estimate, rose from $2,100 in 1971 to $7,400 in 1982, implying a 350-percent increase over 11 years. If those sums are adjusted for inflation, the cumulative increase in per capita benefits is less than 47 percent, or an annual average increase of 3.5 percent in real terms.

Further, this 3.5 percent real increase is very largely due to the compound effects of the one-time, 20-percent increase in social security benefits enacted in 1972. That increase was voted by the Congress in response to 1970 census data indicating that 24.5 percent of the Nation's elderly were living on incomes below the poverty level. Today, elderly poverty is at 15.3 percent. In short, the historical expansion of Federal expenditures looks especially sharp in part because Federal income maintenance support was inadequate for many older persons in previous decades.

Finally, any analysis of expenditures must also take account of related income. With regard to the programs that are financed from general revenues, it may be worth noting that older Americans, who constitute 11 percent of our population, pay roughly 11 to 12 percent of total Federal income tax revenues from individuals.

C. TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

The major tax legislation passed in 1982 was the Tax Equity and Fiscal Responsibility Act of 1982—known as TEFRA. Many of the provisions of the bill (H.R. 4961) were rewritten by the House and Senate conferees before its passage on September 13, 1982, and enactment as Public Law 97-248. This law contains both spending reduction and revenue-raising provisions. The following discussion is concerned with the revenue provisions; the spending provisions are discussed in detail in the relevant chapters of this publication.

The Senate Finance Committee stated that the four principal objectives of the revenue provisions of TEFRA are: (1) To increase revenues in the effort to reduce projected large budget deficits; (2) to make certain that all individuals and businesses pay a fair portion of the total tax burden; (3) to reduce economic distortions caused by the current tax system; and (4) to more closely allocate costs of Federal programs to those responsible for that spending, through imposition of so-called "user" taxes.

A more detailed explanation of these four objectives was included by the Senate Finance Committee in Senate Report No. 97-494:

> *Revenue needs*
>
> Early this year, it became clear that, in the light of the recession, high interest rates and the decline in inflation, continuing present spending and tax policies would result in unacceptably large Federal budget deficits. Projections by the Office of Management and Budget and the Congressional Budget Office indicated that Federal deficits, if current policy did not change, could reach $182 billion in fiscal year 1983, $216 billion in 1984, and $233 billion in 1985. By 1985, at a time when the economy is expected to be prosperous, the Federal deficit was projected to be 5.6 percent of gross national product—the largest deficit in peacetime history.
>
> Such deficits would have extremely serious consequences. First, a stimulative fiscal policy and the restrictive monetary policy with which the Federal Reserve is attempting to control inflation could lead to continued very high interest rates. These interest rates would reduce business investment, make it difficult for all but the most affluent Americans to acquire their own homes, and cause the bankruptcy of many businesses, both large and small. Second, large deficits and high interest rates would greatly increase the costs of servicing what would become a crushing burden of the national debt. Outlays for interest on the debt have already grown from $52.5 billion in fiscal year 1980 to an estimated $86 billion in 1982, or from 2 to 2.8 percent of GNP. The current policy budget projections of OMB and the CBO are that this debt service burden would grow to $147.1 billion in 1985, or to 3.6 percent of GNP. Third, large deficits could put pressure on the Federal Reserve either to pursue very tight monetary policies or to accommodate the deficits with a monetary expansion that could rekindle double-digit inflation. Fiscal restraint would permit the burden of fighting inflation to be spread more evenly throughout the economy. Fourth, large deficits would imply a lack of control by Congress over Government operations and fiscal policy, which would cause uncertainty among those making financial and investment decisions.

The first congressional budget resolution for fiscal year 1983 contains an integrated set of spending and tax policies designed to bring these deficits under control. The resolution provides for revenue increases of $20.9 billion in fiscal year 1983, $36 billion in 1984, and $41.4 billion in 1985. The committee's bill is consistent with these revenue targets.

It should be noted that these revenue increases are modest in relation to the tax reductions enacted in the Economic Recovery Tax Act of 1981. That bill provided tax reductions, broadly distributed among individuals and businesses, of approximately $88 billion in fiscal year 1983, $140 billion in 1984, and $190 billion in 1985. Thus, the targeted revenue increases provided for in the budget resolution and the committee's bill are only about one-fourth the size of last year's tax cuts.

Tax equity

A widely accepted goal of tax policy is that the tax burden be distributed fairly, in accordance with people's ability to pay. This is particularly important in the United States, where tax collection relies heavily on voluntary compliance. Several studies show that taxpayers are more likely to comply voluntarily with the tax laws if they believe that similarly situated taxpayers are bearing a comparable share of the tax burden.

Unfortunately, over the past several years, the trend has been toward less equity. Dozens of special deductions, exclusions, and tax credits have been enacted, and while these generally serve a worthwhile purpose, their cumulative effect is to make the system less equitable and more complex. This bill attempts to reverse this trend by scaling back or repealing those tax preferences which are no longer needed or which can no longer be justified in the light of the present budgetary situation.

The most blatant inequity occurs when some people take advantage of our voluntary compliance system to evade the tax laws. Statistics prepared by the Internal Revenue Service indicate that noncompliance with the tax laws is growing, and it is becoming an extremely serious national problem. It would be grossly unfair to ask the majority of honest Americans to pay more taxes unless every reasonable effort is being made to make sure that tax evaders comply with the law. The cuts in marginal tax rates enacted last year, and the provisions of the committee bill which create a more equitable distribution of the tax burden, will contribute to improved compliance. However, the committee believes that more direct action is needed to deal with this urgent national problem, and the bill contains provisions to improve both the withholding and information reporting systems.

A key goal of the committee was to achieve the revenue targets in the budget resolution through tax changes which improve tax equity, rather than to achieve them through broadly based tax increases, such as increases in marginal individual income tax rates or taxes on energy consumption.

Economic distortions

In recent years, there has been considerable discussion and analysis of the various ways in which the tax system distorts economic behavior in the private sector and the impact of such distortions on economic growth. Much of this discussion has focused on how these distortions might be alleviated by tax reductions; and the 1981 tax reduction was a major step toward this goal. However, it is also possible for economic distortions to result from overly generous tax incentives. The committee has reviewed existing tax incentives with this in mind, and the bill scales back several of those which, in the committee's view, are so generous that they create, rather than reduce, economic distortions.

One example of tax benefits which are overly generous is that the combination of accelerated depreciation and the investment tax credit provides tax benefits which, in many cases, is more generous than deducting the cost of equipment in the year it is placed in service (expensing). Such treatment can encourage businesses to purchase equipment which would not be profitable on a pretax basis. The basis adjustment in this bill should reduce the combined benefits of depreciation and the credit to the point that they are approximately equivalent to expensing under conditions presently prevailing in the economy. The present safe-harbor leasing provisions, which are substantially modified in the committee bill, also can lead to incentives to make uneconomic investments.

Other examples of tax incentives which create economic distortions, and which the committee bill repeals or modifies, include the tax treatment of original discount bonds, tax-free dividend reinvestment for public utility stock, industrial development bonds, the tax treatment of mergers and acquisitions, the tax treatment of life insurance, and the completed contract method of accounting. In each of these areas, the committee bill is able both to raise revenues and to improve economic efficiency.

Allocation of the costs of government

A recurring issue for any democratic society is determining the appropriate level of government services. One way to deal with this problem is to raise revenues through user

> taxes, so that those responsible for government spending pay for that spending and, therefore, do not create an excessive demand for government spending as a result of a disassociation between costs and benefits. For example, 80 percent of Federal retirees age 65 or over receive medicare, even though they make contributions during only part of their careers; the typical private sector worker makes contributions over his entire career. Thus, the bill subjects Federal employees to the medicare portion of the social security tax. Similarly, unemployment benefits are supposed to be financed by a payroll tax on employers, but tax revenues have been insufficient so that the unemployment benefit system has had to borrow substantial revenues from the Treasury, that is, from general taxpayers. Therefore, the bill increases both Federal and State unemployment taxes. Likewise, the taxes applying to aviation users are also increased to insure that users, rather than all taxpayers, pay for a greater share of the expenses of developing the airport and airway control systems. Thirteen percent of the revenue raised by the bill comes from these provisions aimed at those responsible for specific government spending.

The following two tables appeared in the conference report to accompany H.R. 4961, and illustrate the estimated revenue effects of the new tax law over the period from fiscal year 1983 to fiscal year 1987. Table 3 is a summary table of the revenue effects in the general categories of tax changes. Table 4 provides a more detailed breakdown of the revenue effect by individual tax provisions for each change in the law.

TABLE 3.—SUMMARY OF ESTIMATED REVENUE EFFECTS OF TAX PROVISIONS OF H.R. 4961 AS AGREED TO BY THE CONFERENCE COMMITTEE, FISCAL YEARS 1983–87

[In millions of dollars]

Provision	1983	1984	1985	1986	1987
Individual income tax provisions	272	3,113	3,106	3,336	3,556
Business tax provisions	5,422	13,292	16,497	28,042	40,116
Compliance provisions	3,365	8,869	8,660	10,174	11,217
Pension provisions	194	780	870	970	1,058
Life insurance and annuities	1,942	2,155	2,920	3,138	3,370
Employment tax provisions	1,904	3,083	3,577	2,853	2,572
Excise tax provisions	2,798	4,009	4,702	2,054	1,472
Miscellaneous provisions	−38	−37	−34	−32	−30
Total, tax provisions	15,859	35,264	40,298	50,535	63,331
Revenue gain resulting from additional IRS enforcement personnel	2,100	2,400	2,400	1,300	600
Grand total, all provisions	17,959	37,664	42,698	51,835	63,931

TABLE 4.—ESTIMATED REVENUE EFFECTS OF TAX PROVISIONS OF H.R. 4961 AS AGREED TO BY THE CONFERENCE COMMITTEE, FISCAL YEARS 1983–87

[In millions of dollars]

Provision	1983	1984	1985	1986	1987
Individual income tax provisions:					
Alternative minimum tax	(1)	659	701	741	729
Medical deduction	272	1,788	1,671	1,795	1,947
10 percent casualty deduction floor		666	734	800	880
Total, individual tax provisions	272	3,113	3,106	3,336	3,556
Business tax provisions:					
Reduction in corporate preference items	515	936	948	918	995
Investment tax credit basis adjustment	362	1,374	2,658	4,109	5,579
Limit ITC to 85 percent of tax liability	152	259	213	178	164
1985–86 ACRS changes			1,541	9,907	18,442
Construction period interest and taxes	555	1,179	1,206	1,084	819
Modifications to pre-ERTA and safe harbor leasing rules	1,036	2,649	4,252	5,496	7,000
Changes in taxation of foreign oil extraction income	200	438	508	569	621
Limit on possessions credit	201	428	473	516	559
Private purpose tax-exempt bonds	63	261	539	748	1,076
Mergers and acquisitions	427	749	959	1,014	1,064
Accounting for completed contracts	882	2,235	2,535	2,390	2,559
Original issue discount and coupon stripping provisions	163	310	465	629	808
Targeted jobs credit	−182	−551	−591	−271	−54
Accelerate corporate tax payments	1,048	3,025	791	755	484
Total, business tax provisions	5,422	13,292	16,497	28,042	40,116
Compliance provisions:					
Withholding on interest and dividends	1,344	5,246	3,975	4,605	5,181
Other compliance provisions, including partnership audits and taxpayer safeguards [3]	2,021	3,623	4,685	5,569	6,036
Total, compliance provisions	3,365	8,869	8,660	10,174	11,217
Pension provisions	194	780	870	970	1,058
Life insurance and annuities	1,942	2,155	2,920	3,138	3,370
Employment tax provisions:					
Independent contractors	−117	−107	−79	−85	−92
FUTA tax	1,404	2,353	2,729	1,872	1,501
Federal employees medicare tax	617	837	927	1,066	1,163
Total, employment tax provisions	1,904	3,083	3,577	2,853	2,572
Excise tax provisions:					
Airport and airway taxes [4]	817	962	1,089	1,216	1,357
Telephone tax [5]	616	1,073	1,600	730	
Cigarette tax [6]	1,275	1,829	1,859	−34	−13
Repeal of Trans-Alaska Pipeline System adjustment [7]	90	145	154	142	128
Alaska Native Claims Settlement Corp					
Total, excise tax provisions	2,798	4,009	4,702	2,054	1,472
Miscellaneous provisions:					
National Research Service Awards	−8	−7	−4	−2	(1)
Annual accounting for certain joint ventures					
Foreign Corrupt Practices Act provisions	−30	−30	−30	−30	−30
Disclosure of tax returns					
Veterans organizations	(2)	(2)	(2)	(2)	(2)
Amateur athletic organizations	(2)	(2)	(2)	(2)	(2)
Relief for the Jefferson County Mental Health Center	(8)				
Award of certain litigation costs	(9)	(9)	(9)	(9)	(9)
Treatment of certain lending or finance businesses for purposes of the tax on personal holding companies	(2)	(2)	(2)	(2)	(2)
Additional refunds relating to repeal of the excise tax on buses	(1)	(1)	(1)	(1)	(1)
Total, miscellaneous provisions	−38	−37	−34	−32	−30

TABLE 4.—ESTIMATED REVENUE EFFECTS OF TAX PROVISIONS OF H.R. 4961 AS AGREED TO BY THE CONFERENCE COMMITTEE, FISCAL YEARS 1983-87—Continued

[In millions of dollars]

Provision	1983	1984	1985	1986	1987
Total, tax provisions	15,859	35,264	40,298	50,535	63,331
Revenue gain resulting from additional IRS enforcement personnel	2,100	2,400	2,400	1,300	600
Grand total, all tax provisions	17,959	37,664	42,698	51,835	63,931

[1] Negligible.

[2] Loss of less than $5 million.

[3] Additional gains in budget receipts are expected from the administration's proposal to increase IRS personnel in taxpayer compliance enforcement activities: $2.1 billion in fiscal year 1983, $2.4 billion in 1984, $2.4 billion in 1985, $1.3 billion in 1986, and $0.6 billion in 1987.

[4] The figures represent net increases, after accounting for lower income tax receipts. Additional revenues from aviation excise taxes, resulting from this bill before taking account of the income tax offset are estimated at $1,089 million in 1983, $1,283 million in 1984, $1,452 million in 1985, $1,621 million in 1986, and $1,809 million in 1987.

[5] The figures represent net increases, after accounting for lower income tax receipts. Increases in general fund receipts from this tax before taking account of the income tax offset are estimated at $821 million in fiscal year 1983, $1,431 million in 1984, $2,133 million in 1985, and $973 million in 1986.

[6] The figures represent net increases after accounting for lower income tax receipts. Increases in general fund receipts from this tax before taking account of the income tax offset are estimated at $1,700 million in fiscal year 1983, $2,439 million in 1984, $2,479 million in 1985.

[7] The figures represent net increases after accounting for lower income tax receipts. Increases in general fund receipts from this tax before taking account of the income tax offset are estimated at $139 million in fiscal year 1983, $260 million in 1984, $285 million in 1985, $267 million in 1986, and $241 million in 1987.

[8] Increases outlays by $50,000.

[9] [This footnote was inadvertently left out of conference report.]

Having presented the aggregate effects of the changes in the tax law, this chapter will now summarize the changes in the tax law which pertain to individuals. Unlike the changes made in 1981, however, very few of the 1982 tax law changes affect older Americans or those planning for retirement.

1. INDIVIDUAL INCOME TAX PROVISIONS

(A) MEDICAL EXPENSE DEDUCTION

The floor for deductible medical expenses is increased from 3 to 5 percent of adjusted gross income for tax years beginning in 1983. The deduction for one-half (of up to $150) of medical insurance premium expense was repealed. These changes were made for tax years beginning in 1983.

As of 1984, only prescription drugs and insulin will qualify as drug expenditures for deductible medical expenses. The separate 1 percent adjusted gross income floor for drug expenditures is also removed in 1984. In other words, qualified drug expenditures must, in combination with other medical expenses, exceed 5 percent of adjusted gross income to be tax deductible, beginning in 1984.

(B) NONBUSINESS CASUALTY AND THEFT LOSSES

Prior law provided that nonbusiness casualty and theft losses were deductible by individuals, above a $100 floor per loss. Beginning for tax years after 1982, the allowable deduction is further reduced by adding a second floor: 10 percent of the taxpayer's adjusted gross income. Therefore, after 1982, losses are deductible which exceed both the $100 floor for each loss plus 10 percent of adjusted gross income.

(C) TAXATION OF UNEMPLOYMENT BENEFITS

The base amounts above which unemployment benefits are taxable were lowered for tax year 1982. This base was lowered from $20,000 to $12,000 for single taxpayers and from $25,000 to $18,000 for married taxpayers filing jointly. Any estimated tax penalties brought about because of this change are waived for tax year 1982.

2. Pension Provisions

(A) OVERALL LIMITATIONS ON PENSION CONTRIBUTIONS AND BENEFITS

The Tax Equity and Fiscal Responsibility Act of 1982 makes several changes in the overall limits on pension plan contributions and benefits. The maximum dollar limits on pension contributions and benefits are reduced.

The maximum dollar limit on annual additions under defined contribution plans is changed from the lesser of 25 percent of compensation or $45,475, to the lesser of 25 percent of compensation or $30,000.

The maximum dollar limit on the annual benefit payable under defined benefit plans is changed from the lesser of 100 percent of compensation or $136,425, to the lesser of 100 percent of compensation or $90,000. If retirement benefits under a defined benefit plan begin before age 62, the $90,000 limitation is to be reduced so that it is the actuarial equivalent of an annual benefit of $90,000 beginning at age 62. However, it would not be less than $75,000 at age 55. These limits on contributions and benefits are frozen until 1986 when automatic adjustments for price inflation are to resume. Reductions are also made in the overall limits allowable in the case of an individual covered by both a defined benefit plan and a defined contribution plan.

Transitional rules insure that benefits already earned under existing defined benefit and defined contribution plans are not reduced because of the lower contribution and benefit limits imposed by TEFRA.

(B) EQUAL RULES FOR KEOGH PLANS AND CORPORATE PENSION PLANS

The Tax Equity and Fiscal Responsibility Act establishes parity between corporate and noncorporate plans. Special rules for Keogh plans for the self-employed are repealed to place them on equal footing with corporate plans, including the $30,000 contribution and $90,000 benefit limitations.

Stricter rules are established for so-called "top-heavy" plans, defined as a plan under which more than 60 percent of the accrued benefits (or contributions) go to so-called key employees. A "key employee" is defined as an officer, a 5-percent owner, a 1-percent owner with compensation in excess of $150,000, or the employees owning the 10 largest interests in the firm.

Special requirements for top-heavy plans include new accelerated vesting schedules and a new minimum benefit. Full vesting would be required after 3 years of service, or alternatively, graded vesting beginning with 20 percent after 2 years of service, increasing by 20 percent each year so that 100-percent vesting is attained at the end of 6 years of service. The new minimum benefit required of a top-heavy plan would be 2 percent of pay multiplied by the employee's years of service (not to exceed 20 percent) in a defined benefit plan. A contribution of 3 percent of pay would be required in a defined contribution plan, or if less, the highest contribution rate for any key employee.

With regard to integration of defined contribution plans with social security, the credit for all such plans—corporate and noncorporate—is reduced from 7 percent to the statutory OASDI tax rate, currently 5.4 percent.

(C) QUALIFIED PLAN LOANS TREATED AS DISTRIBUTIONS

Generally, loans from a tax-qualified or governmental pension plan are treated for Federal income tax purposes as a plan distribution to the extent the loan exceeds prescribed limits. All loans up to $10,000, plus those loans up to $50,000 that do not exceed half of the present value of an employee's vested benefits, are not treated as a taxable distribution—provided that the terms of the loans call for repayment within 5 years. If a loan is made in connection with a principal residence of the participant or a family member, however, it does not have to be repaid within 5 years; instead, a "reasonable" repayment schedule is allowed.

(D) ESTATE TAX EXCLUSION

Other tax changes restrict the amount of employee benefits which are excluded from Federal estate tax. Before TEFRA, no employee benefits were considered part of the estate for Federal tax purposes. Now, no more than $100,000 in benefits may be excluded from the estate for people who die after December 31, 1982.

3. Taxpayer Compliance

(A) WITHHOLDING ON INTEREST AND DIVIDEND INCOME

Beginning in 1983, payors of interest, dividends or patronage dividends are liable to withhold and pay to the Federal Government amounts withheld for taxes.

A withholding rate of 10 percent has been established for interest or dividend income credited after June 30, 1983. Amounts must be withheld when the interest or dividends are credited to the payee's account.

The payors of interest and dividends may elect not to withhold Federal tax if the aggregate interest payments for the year will not exceed $150. Patronage dividends of qualified consumer cooperatives are not required to have amounts withheld from those dividends.

Individuals whose tax liability for the preceding year was less than $600 (if single) or $1,000 (if married) may be exempt from withholding. Individuals over age 65 whose tax liability was less than $1,500 (if single) or $2,500 (if married) may elect not to have withholding. In the case of married taxpayers, only one spouse must meet the age-65 requirement. To qualify for this exemption, a certificate must be filed with the payor.

Many recipients such as corporations, governments, individual retirement plans, tax exempt organizations, and a host of others, have been excluded from the withholding requirements.

(B) WITHHOLDING ON PENSIONS, ANNUITIES, AND DEFERRED INCOME

Beginning in 1983, withholding of Federal income tax will begin on pension payments, annuities, and other deferred income arrangements unless the taxpayer specifically requests that the payor not withhold tax. Those persons subject to withholding may elect out of this system for any reason. Nonperiodic payments are subject to a flat 10-percent rate.

Each year, payors are required to notify all recipients of their rights to make, renew, or revoke an election concerning withholding.

D. TAX EXPENDITURES

As we have seen, 1982 tax legislation, in an effort to reduce Federal budget deficits, focused on the issues of tax equity and the economic distortions that may result from tax incentives. The Tax Equity and Fiscal Responsibility Act, in contrast to recent experience, reduced so-called "tax expenditures"; existing tax expenditures were reduced by 13 provisions of the Tax Equity and Fiscal Responsibility Act. The 1982 legislation has, therefore, shown that substantial reductions in tax expenditures can be achieved through the budget process,[3] and the critical evaluation of tax expenditures began to receive far greater attention in 1982 than previously.

The concept of tax expenditures is relatively new, having been developed over the past decade. Section 3(a)(3) of the Congressional Budget and Impoundment Control Act of 1974 specifically defines tax expenditures as:

> * * * those revenue losses attributable to provisions of Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability; * * *

In other words, tax expenditures are revenue losses resulting from Federal tax provisions that grant special tax relief designed to encourage certain kinds of behavior by taxpayers or provide relief to taxpayers in special circumstances. In effect, the concept of tax expenditures views these tax provisions as a direct budget outlay to the beneficiary taxpayer, similar to an entitlement.

> Because any qualified taxpayer may reduce tax liability through use of a tax expenditure, such provisions are comparable to entitlement programs under which benefits are paid to all eligible persons. Since tax expenditures are generally enacted as permanent legislation, it is important that, as entitlement programs, they be given thorough periodic consideration to see whether they are efficiently meeting the national needs and goals for which they were originally designed.[4]

Tax expenditure budgets which list the estimated annual revenue losses from each tax provision were required to be published in 1975 as part of the administration budget for fiscal year 1976, and have been required to be published by the Budget Committees since 1976.

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[3] U.S. Congressional Budget Office. Tax Expenditures: Budget Control Options and Five-Year Budget Projections for Fiscal Years 1983-1987. Washington, U.S. Govt. Print. Off., November 1982, p. 5. See also the CBO report, Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1982-1986. Washington, U.S. Govt. Print. Off., September 1981.

[4] U.S. Congress. Senate. Committee on the Budget. Tax Expenditures. Relationships to Spending Programs and Background Material on Individual Provisions. Printed for the use of the Committee on the Budget. 97th Cong., 2d Sess., Mar. 17, 1982. Washington, U.S. Govt. Print. Off., 1982, p. 2.

Because the tax expenditure concept is still being refined, the classification of certain provisions as tax expenditures continues to be discussed. The listing of a provision as a tax expenditure in no way implies any judgment about its desirability or effectiveness. It is only intended to allow Congress to scrutinize all Federal fiscal policy. In the words of the Senate Budget Committee, "only when tax expenditures are considered will congressional budget decisions take into account the full spectrum of Federal programs."[5]

TABLE 5.—TAX EXPENDITURE GROWTH, SELECTED CALENDAR YEARS 1967–73 AND FISCAL YEARS 1975–82[1]

	1967	1969	1971	1973	1975	1977	1979	1981	1982
Tax expenditures:									
Totals (in billions of dollars)	$36.6	$46.6	$51.7	$65.4	$92.9	$113.5	$149.8	$228.6	$253.5
Percent of Federal outlays	20.5	23.7	22.3	24.3	28.5	28.2	30.3	34.6	34.6
Percent of Federal revenues	23.8	24.1	24.8	24.7	33.1	31.7	32.3	37.9	40.8
Percent of total Federal "spending" (outlays plus tax expenditures)	18.8	20.3	19.7	21.0	22.3	22.1	23.4	25.7	25.7
Percent of GNP	4.4	4.8	4.6	4.7	6.3	6.1	6.4	8.0	8.4
Federal outlays as a percent of GNP	21.4	20.3	20.6	19.5	22.0	21.6	20.9	23.1	24.2
GNP (in billions of dollars)	$777.3	$910.6	$1,031.5	$1,252.0	$1,479.9	$1,864.1	$2,417.8	$2,937.7	$3,033.8

[1] Tax expenditures estimates were prepared only on a calendar year basis for the years 1967 to 1973. The estimates for calendar years 1967 to 1973 correspond roughly to fiscal years 1968 to 1974, and are thus compared to the GNP, outlay, and revenue figures for those fiscal years.

Source: Congressional Budget Office.

In many areas, the Federal Government exerts more influence through tax expenditures than it does through direct spending.[6] The tax expenditures for general purpose fiscal assistance (mainly tax-exempt bonds and deductions for State and local taxes) are greater than direct Federal outlays (mainly general revenue sharing), and tax expenditures for housing exceed outlays by more than four to one. The tax expenditures for natural resources and environment, for example, grew by more than 800 percent between 1974 and 1981, while outlays for that purpose grew by just over 140 percent.

Tax expenditures add to the Federal deficit in the same way that direct spending programs do. They also allocate resources and provide incentives and benefits in the same way. They are one of the ways by which the Federal Government plays a role in the economy and involves itself in the lives of its citizens.

Unlike direct spending programs, however, tax expenditures have low visibility in the budget process and are controlled in only a limited and indirect way. The Budget Act requires that a tax expenditure budget be compiled each year, but it is presented only for informational purposes. No direct budgetary decisions are based on it, and accordingly it receives relatively little attention. One consequence of this low visibility is that activities that may not have sufficient support to obtain Federal funding through direct outlays may be funded through the back door by tax expenditures.

Tax expenditures show up as revenue losses, and thus have an important effect on the revenue totals that are included in congressional budget resolutions. But they are treated for this purpose as simply another form of tax cut; they are not treated as alternatives to spending programs. There is an important distinction between general tax cuts that reduce taxes broadly across the board and tax expenditures that provide a tax cut only to those in certain specified circumstances or who act in certain specified ways. General tax cuts return resources to taxpayers to use in whatever way they see fit; tax expenditures return resources to taxpayers only if they do what the Government would like them to do, or if they are thought deserving of special help. The present treatment of tax expenditures in the budget process blurs the distinction between these two ways of reducing taxes.

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[5] Ibid.

[6] The following discussion is taken from U.S. Congressional Budget Office. Tax Expenditures: Budget Control Options and Five-Year Budget Projections For Fiscal Years 1983-1987. A CBO Report, November 1982. Washington, U.S. Govt. Print. Off., 1982, pp. 13-16.

WHO BENEFITS FROM TAX EXPENDITURES?

Late in 1982, the Treasury Department completed a new analysis of tax expenditures, prepared at the request of Congressman Henry S. Reuss, chairman of the Joint Economic Committee. Reuss asked Treasury to update earlier analyses prepared by Treasury in 1975 and 1978, which showed how each tax expenditure provision affected the tax liability of different income groups. "The current momentum for moves toward major tax simplification brings new urgency to our request," wrote Reuss to Secretary Regan on July 7, 1982. "It would clearly be most valuable to have this material in time, for example, to aid the consideration of various proposals for shifting to a 'flat tax' system with far fewer deductions, exclusions, and preferences."

The Treasury study, which was released by the Joint Economic Committee on November 20, 1982, is the most current and thorough analysis now available of the distribution of tax expenditures, measured under 1982 law at 1981 adjusted gross income levels.

"Some large tax expenditures have exceedingly regressive impacts on our tax system," said Chairman Reuss. Taxpayers with adjusted gross income over $50,000 are only 4.4 percent of all taxpayers, receive 19 percent of total adjusted gross income, and account for 32.9 percent of taxes after credits. But this same group accounts for:

—94 percent of the $4.6 billion tax expenditures from the exclusion of interest on State and local bonds.

—64 percent of the $13.2 billion revenue loss arising from capital gains, excluding gains from home sales.

—47 percent of the $17.8 billion tax expenditures due to the deductibility of nonbusiness State and local taxes.

The distributions of the number of tax returns, adjusted gross income (AGI), and tax after credits are summarized in table 6. Information on size and regressivity, as measured by the percentage of benefits received by taxpayers with 1981 adjusted gross income exceeding $50,000, is presented for 33 separate tax expenditures in table 7.

Based on the Treasury analysis, the most regressive tax expenditures are: Exclusion of interest on State and local bonds; alternative, conservation, and new technology credits; supply incentives; exclusion of income earned abroad by U.S. citizens; and, capital gains, excluding home sales. The most progressive tax expenditures are: The earned income credit; exclusion of disability pay; exclusion of untaxed unemployment insurance benefits; and tax credit for the elderly.

The Treasury study listed 19 items for which it lacked the data it needed to estimate the distribution of benefits to individuals. These are shown in table 8. The largest are the carryover basis of capital gains at death ($5.2 billion); the exclusion of interest on life insurance savings ($4.5 billion); the excess of percentage over cost depletion for fuel and nonfuel minerals ($1.6 billion); and the expensing of exploration and development costs for fuel and nonfuel minerals ($1.4 billion).

Several additional items traditionally viewed as tax expenditures were not included in the analysis, in most cases because the Treasury Department chooses not to classify them as such. These include the deduction for two-earner married couples (estimated by the Joint Committee on Taxation at $705 million in 1982 and $3.98 billion in 1983); accelerated depreciation on equipment other than leased property ($845 million in 1982 and $1.695 billion in 1983); and depreciation on rental and other buildings in excess of straightline ($615 million in 1982 and $765 million in 1983).

TABLE 6.—DISTRIBUTION OF TAX RETURNS, ADJUSTED GROSS INCOME, AND TAX AFTER CREDITS, 1982 LAW, 1981 INCOME LEVELS

Adjusted gross income class (in thousands)	Tax returns (in thousands)	Percent of total	Cumulative percent	Adjusted gross income (in billions)	Percent of total	Cumulative percent	Tax after credits (in billions)	Percent of total	Cumulative percent
0 to $10	34,536	36.9	36.9	$160.9	9.0	9.0	$5.5	2.2	2.2
$10 to $15	13,467	14.4	51.3	167.9	9.4	18.3	14.7	5.8	7.9
$15 to $20	10,882	11.6	62.9	190.8	10.6	29.0	20.6	8.1	16.0
$20 to $30	17,060	18.2	81.1	423.1	23.6	52.6	52.9	20.8	36.8
$30 to $50	13,549	14.5	95.6	509.6	28.4	81.0	77.0	30.3	67.1
$50 to $100	3,439	3.7	99.3	221.5	12.4	93.4	46.6	18.3	85.4
$100 to $200	546	.6	99.9	72.4	4.0	97.4	21.3	8.4	93.8
$200+	121	.1	100.0	46.6	2.6	100.0	15.7	6.2	100.0
Total	93,600	100.0		1,792.7	100.0		254.4	100.0	

Source: Office of Tax Analysis, Department of the Treasury.

TABLE 7.—TAX EXPENDITURES, RANKED BY REGRESSIVITY AND REVENUE LOSS (BASED ON 1982 LAW)

Item	Regressivity rank	Percentage[1]	Total revenue loss, 1982 law, 1981 income levels (in millions)	Rank by revenue loss
Exclusion of interest on State and local bonds	1	94.1	$4,599	10
Alternative, conservation, and new technology: Supply incentives	2	86.8	38	30
Exclusion of income earned abroad by U.S. citizens	3	73.1	930	20
Capital gains, excluding home sales	4	63.5	13,231	5
Deductibility of charitable contributions	5	55.3	8,836	7
Jobs credit	6	54.3	35	31
WIN credit	7	52.9	17	33
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	8	47.3	17,844	3
Investment credit other than energy credits	9	46.9	3,439	11
Deferral of capital gains on home sales	10	43.2	967	19

TABLE 7.—TAX EXPENDITURES, RANKED BY REGRESSIVITY AND REVENUE LOSS (BASED ON 1982 LAW)—Continued

Item	Regressivity rank	Percentage[1]	Total revenue loss, 1982 law, 1981 income levels (in millions)	Rank by revenue loss
Deductibility of casualty losses	11	38.4	695	21
Deductibility of property tax on owner-occupied homes	12	38.2	8,679	8
Dividend and interest exclusion	13	33.4	506	23
Deductibility of interest on consumer credit	14	32.0	8,246	9
Deductibility of mortgage interest on owner-occupied homes	15	30.0	19,602	2
Exclusion of capital gains on home sales for persons age 55 and over	16	27.6	380	25
Net exclusion of pension contributions and earnings	17	26.0	24,350	1
Deductibility of medical expenses	18	24.0	3,422	12
Residential energy credits: Supply incentives	19	22.1	199	26
Exclusion of insurance premiums	20	22.0	1,851	17
Credit for political contributions	21	18.8	80	29
Additional exemption for the elderly	22	15.2	2,131	15
Exclusion of employer contributions for medical insurance premiums and medical care	23	12.9	13,619	4
Residential energy credits: Conservation incentives	24	11.6	415	24
Additional exemption for the blind	25	10.7	28	32
Exclusion of social security and railroad retirement benefits	26	8.2	12,165	6
Exclusion of veterans preference	27	6.5	3,400	13
Credit for child and dependent care	28	5.3	1,314	18
Exclusion of workmen's compensation benefits	29	4.5	2,674	14
Tax credit for the elderly	30	2.2	135	28
Exclusion of untaxed unemployment insurance benefits	31	0.0	2,119	16
Exclusion of disability pay	32	0.0	153	27
Earned income credit	33	0.0	533	22
Total		33.4	156,632	

[1] Benefits received by taxpayers with 1981 adjusted gross income exceeding $50,000.

TABLE 8.—*Tax expenditures for individuals for which distribution data are unavailable from the Department of Treasury*

[Revenue estimate,[1] fiscal year 1982]

	Millions
Expensing of research and development expenditures	$100
Expensing of exploration and development costs, fuel and nonfuel minerals	1,350
Excess of percentage over cost depletion, fuel and nonfuel minerals	1,555
Tax incentives for preservation of historic structures	80
Cash accounting for agriculture	460
Exclusion of interest on life insurance savings	4,535
Expensing of construction period interest and taxes	275
Carryover basis of capital gains at death	5,245
Amortization of startup costs	65
Exclusion of interest on certain savings certificates	[2] 400
5-year amortization for housing rehabilitation	55
Exclusion of employee meals and lodging (other than military)	655
Employer educational assistance	40
Exclusion of contributions to prepaid legal plans	20
Exclusion of income of trusts to finance supplementary unemployment insurance benefits	N/A

	Millions
Deductibility of certain adoption expenses	10
Deferral of interest on savings bonds	[3] −80
Parental personal exemption for students age 19 and over	995
Exclusions of special benefits for disabled coal miners	95
Total	15,855

[1] Joint Committee on Taxation.
[2] Rises to $1.8 billion in 1983.
[3] Rises to $50 million in 1983.

Tax expenditures for the elderly include: (a) Exclusion of social security benefits for retired workers and their survivors and dependents; (b) exclusion of railroad retirement system benefits; (c) exclusion of veterans pensions; (d) the additional exemption for the elderly; (e) the tax credit for the elderly; and (f) the exclusion of capital gains on home sales for the elderly. Other tax expenditures benefit the elderly but are not specific to age—such as the deductions for medical care expenses and property taxes.

Given the large projected Federal budget deficits, and the need for congressional action to control spending and increase Federal revenues in an equitable way, the attention paid to tax expenditures, and whom they benefit, is likely to increase in 1983. Such concerns were clearly evident in 1982, for example, in the changes made in the tax treatment of private pension plans. And, on January 15, 1983, for example, the National Commission on Social Security Reform recommended a modification in the tax treatment of social security benefits, recommending that one-half of such benefits be made taxable for individuals with incomes above $20,000 per year and for couples with incomes above $25,000 per year. This recommendation is discussed in greater detail in the chapter on social security. The point here is that tax expenditures, across the board, are coming under greater congressional scrutiny due to concern that large sums of money are lost to the Federal Government and simply go to the benefit of individuals with higher incomes.

Part I

RETIREMENT INCOME

Although the rate of inflation has declined dramatically in the last year, the problems of providing and maintaining adequate retirement income for older Americans are still compounded by the lack of growth in the economy. Over the last few years, slow economic growth and a decline in real wages have raised the relative cost of our current retirement income programs. As a result, concern about the financing of retirement income has been growing. In 1982, this concern remained the most prominent retirement income issue as Congress enacted the bulk of its legislation in the context of the effort to curtail large Federal budget deficits.

However, despite initial proposals to cut spending for Federal retirement income programs, few changes were actually enacted. Efforts in the budget process to cap cost-of-living adjustments across the board in entitlement programs were successful only in partially reducing COLA's for a portion of Federal civil service and military retirees. Social security financing legislation was deferred to the 98th Congress, and few bills affecting employee pensions were ever reported from committee. The only major pension legislation of the year, placing further limits on tax-sheltered pension accumulation for the highly paid, was enacted, as part of the revenue-raising Tax Equity and Fiscal Responsibility Act of 1982, to meet budget targets. In short, 1982 was a year which saw relatively little change in retirement income programs generally.

A. INCOME OF OLDER PERSONS [1]

In recent years, the real incomes of the elderly have remained relatively stable. Despite this fact, there is a growing perception that the elderly as a group are beginning to receive more income than the rest of the population. It is true that over the past 20 years the income of the elderly has risen relative to the nonelderly, largely as a result of successful public efforts to improve the adequacy of retirement benefits. As a result of these efforts, the once-large income gap between the elderly and nonelderly has narrowed considerably. But while some elderly today receive substantial income in retirement, as a group the elderly are not yet on a par with the rest of the population.

In the 1960's and early 1970's, tremendous improvements in the incomes of the elderly resulted from the general increase in the standard of living and from specific improvements in social security benefits and employer-sponsored pension plans. Median incomes of families with a head 65 and older rose from $3,927 in 1967, to $7,505 in 1974. Adjusting for inflation, this was an increase from $5,801 (1974 dollars) in 1967, to $7,505 in 1974.[2] The incidence of poverty among the elderly declined correspondingly from 35.2 percent in 1959, to 14.6 percent by 1974.[3]

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[1] Unless otherwise noted, information about the income status of the aged in 1981, reported in this section, comes from Congressional Research Service special tabulations of the March 1982 Current Population Survey (CPS) prepared by Tom Gabe.

In the late 1970's, however, economic stagnation brought this trend to a halt. Automatic indexing of social security benefits has helped the elderly in a period of rapid inflation and slow wage growth. But older persons have this inflation protection for only a part of their incomes. As a result, median incomes of persons 65 and over have risen only slightly in real terms since 1978 (from $5,803 to $5,886 in 1981 dollars). And the incidence of poverty among older persons has remained at roughly the same level it declined to in 1974—rising slightly from 14 percent in 1978 to 15.3 percent in 1981.[4] In short, the trend toward closing the income gap between the elderly and nonelderly ended with the onset of economic stagnation in the mid-1970's, leaving the elderly as a group with higher poverty rates and lower median incomes than the nonelderly. Over the last 9 years this residual income gap has remained fixed.

Median incomes for the elderly are today about half those of the nonelderly. In 1981, the median income of families having at least one member age 65 or over was $15,400, compared to $23,950 for families in which no members were age 65 or older. Aged unrelated individuals (i.e., persons age 65 and over living outside a family setting) had a median income of $5,750—about one-half that of nonaged unrelated individuals ($11,200).

In addition, poverty is still more prevalent among the elderly than the nonelderly. The incidence of poverty among persons 65 and over increased between 1978 and 1981 from 14 percent to 15.3 percent, while the incidence of poverty among persons under 65 increased correspondingly from 11 percent to 13.9 percent. In 1981, nearly 4 million older persons had incomes below the official poverty line. Among the aged, the incidence of poverty increases with increasing age. For example, the poverty rate for persons between the ages of 65 and 74 was 12.8 percent, compared to 18.5 percent for those between the ages of 75 and 84, and 22.6 percent for those age 85 and over. The incidence of poverty was higher for aged females (18.6 percent) than for aged males (10.5 percent).

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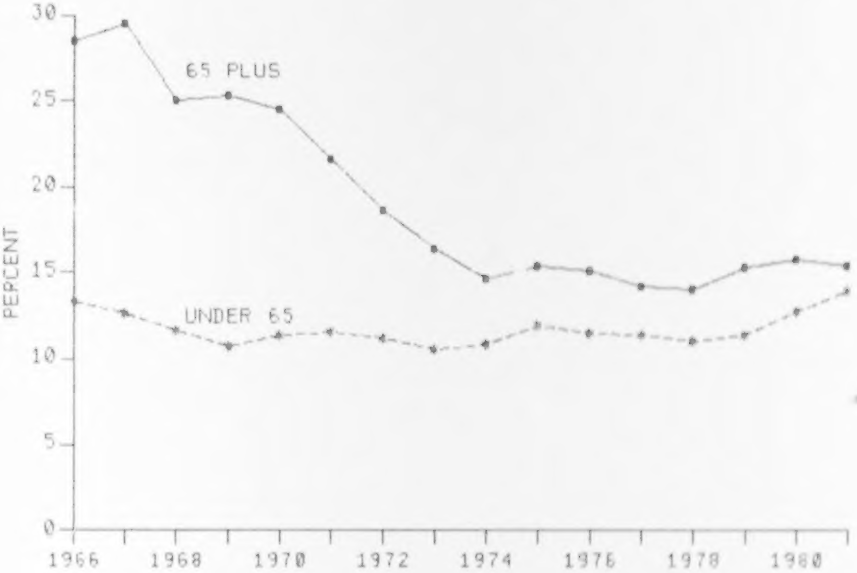
[2] U.S. Dept. of Commerce. Bureau of the Census. Current Population Reports. Series P-60, various years.

[3] U.S. Dept. of Commerce. Bureau of the Census. Current Population Reports. Series P-60, No. 130, table 1.

[4] In 1981, the Census ("Orshansky") Poverty Index was $4,359 for a single person age 65 and over, and $5,498 for a couple in which the householder was age 65 or over.

CHART 1

POVERTY RATES OF YOUNG AND ELDERLY POPULATIONS
1966-1981



SOURCE: Bureau of the Census, March Current Population Surveys

The black aged had a poverty rate (39 percent) nearly three times higher than that of the white aged (13.1 percent). Aged persons living within a family setting had a lower incidence of poverty than aged unrelated individuals. About 8.4 percent of the aged who lived in families were poor, compared to 29.8 percent of those who lived outside a family setting.

The elderly depend more heavily on social security for their income than they do on any other source. In 1980, 40 percent of all income received by aged units came from social security.[5] The importance of social security as a source of income to the elderly has increased substantially since 1962 when it paid 31 percent of all dollars received by aged units. Today, over 90 percent of all aged units receive some income from social security. In 1981, the median amount a family with an aged member received was $6,200. The median amount for an unrelated individual was $4,150.

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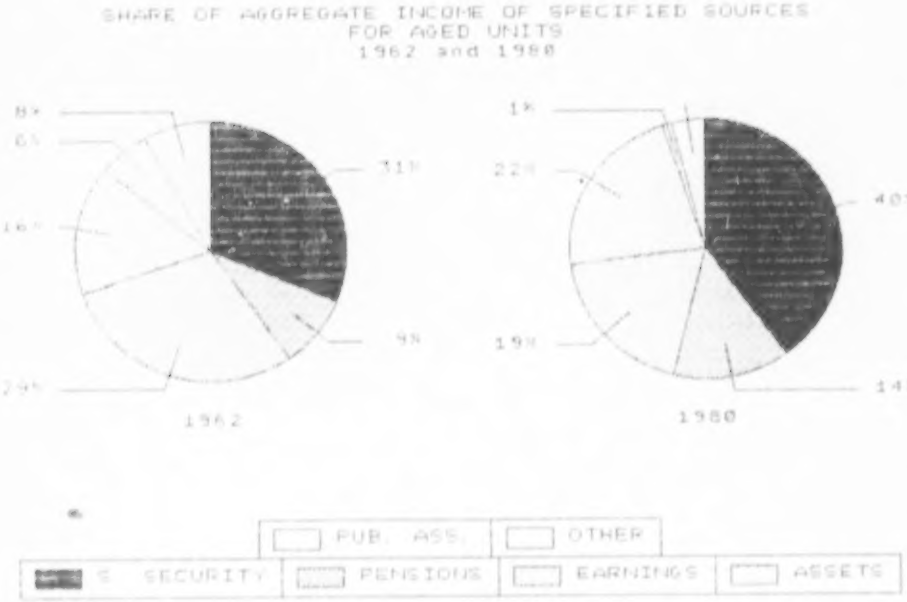
[5] Unless otherwise noted, information about the income shares of aged units comes from Melinda Upp. Relative Importance of Various Income Sources of the Aged, 1980. Social Security Bulletin, January 1983, v. 46, No. 1. An aged unit, in this case, is either a married couple living together, one or both of whom is 65 or older, or an individual 65 or older who does not live with a spouse. Income is measured separately from the income of the family or household in which the unit lives.

CHART 2



SOURCE: SOCIAL SECURITY BULLETIN, JAN. 1983/Vol.46,No.1

Automatic price indexing provisions in social security enacted in 1972 and put into effect in July 1975, have been effective in maintaining the purchasing power of social security benefits after retirement despite high rates of inflation in recent years. The significance of this inflation protection has been greatest for those most dependent on social security. In 1981, 15.5 percent of aged unrelated individuals and 5.3 percent of the families with an aged member reported that social security was their only source of income.

Although social security is sometimes perceived as a program to provide retirement benefits to the "middle class," the bulk of its payments go to those with lower incomes. As of 1979, three-quarters of the benefit payments from social security went to persons with total family incomes (including social security) of less than $15,000. Those who could be characterized as affluent (with family incomes of $25,000 or more) received less than 9 percent of all social security benefit payments.[6]

In recent years, employer-sponsored pensions have increased in importance as a source of income to the elderly; yet, they remain the fourth largest source of income, providing in 1980, only 14 percent of the dollars received by aged units. Private pensions, in par-

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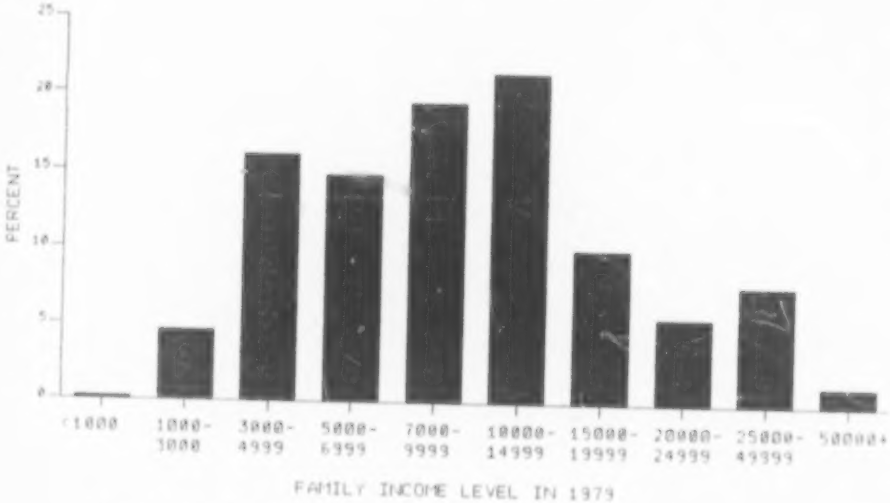
[6] ICF, Inc. Special Tabulation of the March 1980 Current Population Survey (CPS).

CHART 3

PERCENT OF TOTAL SOCIAL SECURITY BENEFIT PAYMENTS
BY INCOME CATEGORY



SOURCE: Analysis of March 1980 Current Population Survey

ticular, have expanded as a source of retirement income—increasing their share of elderly income from 6 to 9 percent after the enactment of the Employee Retirement Income Security Act of 1974 (ERISA)—an act designed to protect the retirement benefits of pension plan participants.

As of 1981, approximately one-quarter of aged unrelated individuals and two-fifths of the families with an aged member reported that they had income from private or government pensions during the year. The median income from these sources was $2,400 and $3,650, respectively.

Employer-sponsored pensions, with the exception of Federal civil service and military retirement pensions, provide incomplete protection from inflation. Recent data suggest that major pension plans are increasing the frequency of their adjustment of benefits for inflation after retirement, but that these adjustments still lag behind inflation and provide benefit adjustments lower than the increase in the Consumer Price Index. Nearly all companies that adjust benefits after retirement make these adjustments on an ad hoc basis. Only 3 percent of the pension plans surveyed provide for automatic annual adjustments, and in these cases the increases were limited to 3 to 4 percent.[7] A Labor Department study has indicated that even with ad hoc adjustments of pension benefits the real value of private pension benefits declined by 4 to 8 percent a year in the early 1970's.

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[7] Towers, Perrin, Forster, and Crosby. Pension Increases for Retired Employees. November 1981. The report of a survey of 95 companies surveyed in 1979. See also: U.S. Dept. of Labor. Bureau of Labor Statistics. Employee Benefits in Industry, 1980. Bulletin No. 2107, September 1981, table 29.

Savings and other sources of asset income are providing an increasing proportion of income to the elderly. The share of income to aged units coming from assets increased from 16 percent in 1962, to 22 percent in 1980. As of 1981, 65 percent of aged unrelated individuals had income from these sources, with half receiving less than $1,050 over the course of the year. Approximately 75 percent of the families with an aged member had income from these sources, with half receiving less than $1,850. The extent of inflation protection provided by asset income varies considerably depending on the nature of the asset. Tangible assets such as a home, have generally increased in value to keep pace with inflation. On the other hand, financial assets such as savings or checking accounts or bonds, have largely fallen behind inflation.

Public assistance, primarily supplemental security income (SSI), provides a very small share of income to the elderly—a share which has declined in recent years. Whereas, in 1962, aged units derived 6 percent of their income from public assistance, by 1980, only 1 percent of the income of aged units came from this source.

As of 1981, about 10.8 percent of aged unrelated individuals and 7.7 percent of families with an aged member received a benefit from the supplemental security income (SSI) program. The median payment reported by those receiving income from this source was $1,200 for aged unrelated individuals, and $1,900 for families with an aged member. While Federal SSI and food stamp benefits are automatically adjusted for the full CPI, State supplementation and other State assistance payments are not. In addition, allowable income and asset levels for determining eligibility are not changed automatically. In general, public assistance provides only partial inflation protection.

While it is commonplace to characterize the elderly as retired, in fact a substantial portion of the income received by aged units comes from earnings from either full- or part-time employment. This proportion, however, decreased significantly during the 1960's and 1970's. While earnings provided 29 percent of the income of aged units in 1962, by 1980, it accounted for only 19 percent of their income.

As of 1981, 14 percent of aged unrelated individuals reported that they had income from earnings, with half having earned less than $3,850.[8] In comparison, 85 percent of nonaged unrelated individuals reported that they had income from earnings, with half of them having earned more than $12,000 in 1981. Similarly, 49 percent of the families having an aged member received income from earnings in 1981, with half of them earning more than $11,800.[9] In comparison, 94 percent of the families with no aged members had income from earnings, and their median family income was $23,100.

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[8] Earnings includes money wages and salaries, and net income from farm and nonfarm self-employment.

[9] Some of these families may include aged persons living with their children.

During periods of normal economic growth, wage increases surpass increases in prices. This has not been true, however, in recent years. Because adjustments in wages and salaries have lagged behind inflation, real earnings have declined and earnings have provided a relatively weak source of inflation protection for both older and younger workers.

B. RETIREMENT INCOME AS A BUDGET ISSUE

The 97th Congress appeared in its first session to be interested in reordering the balance between public and private vehicles for providing retirement income. However, any broader reform initiatives have been overshadowed by the effort to control budget deficits.

In 1981, there were a host of initiatives aimed at halting growth in public intergenerational transfers and shifting emphasis to private retirement income sources. This effort to shift emphasis was advanced by:

—Enacting reductions in social security outlays, both in the near future and in the long term, through the elimination of some "peripheral" benefits and through other modifications in procedures.

—Proposing to spur private pension growth through simplification of ERISA to reduce the employer's pension costs and improve the flexibility of pension fund investments.

—Enacting incentives for the accumulation of additional retirement savings by expanding eligibility for individual retirement accounts (IRA's), and increasing contribution limits of Keogh plans and simplified employee pension (SEP) plans.

By the second session, however, raising Federal revenues or reducing Federal spending became the motivation for nearly all legislative action on retirement income. Legislative initiatives in the area of ERISA simplification, regulation of public employee pensions, modification of multiemployer pension withdrawal liability, and single employer termination insurance were stalled. Serious consideration of social security financing reforms, blocked by public and partisan opposition during the first session, was deferred to the 98th Congress while a 15-member bipartisan National Commission on Social Security Reform worked to develop a consensus package of financing proposals.

Instead, the Congress enacted a series of changes in the tax treatment of pensions designed to raise revenues over the next 3 years, and a reduction in the COLA for Federal civilian and military pension designed to reduce outlays.

The 98th Congress is left with a varied legacy of unfinished business. Enactment of social security financing legislation is clearly the first agenda item for the new Congress. In addition, mounting budget deficits are increasing the pressures on the Congress to raise taxes and cut spending, and public and private pensions remain targets for this budget activity. The Reagan administration has proposed major reductions in civil service retirement benefits as part of the fiscal year 1984 budget. In addition, some further efforts to close tax shelters and limit the growth of nontaxable fringe benefits may lead to more changes in pension tax legislation. Finally, there are a host of outstanding pension reform and financing proposals which will most likely come up for review in this Congress including proposals to address problems in: Single employer termination insurance, multiemployer withdrawal liability, and railroad retirement refinancing.

Chapter 3

SOCIAL SECURITY FINANCING

OVERVIEW

Despite the urgent need for solutions to the social security financing problem, the 97th Congress ran into a political deadlock in efforts to develop financing legislation, deferring action to the 98th Congress. Early in 1981, the Congress had moved to address the financing problem. Comprehensive financing bills were introduced and, at the same time, proposals to eliminate social security student benefits and minimum benefits were enacted as part of the fiscal year 1982 budget legislation. But comprehensive financing proposals announced by the administration in May 1981 encountered strong opposition, and by midsummer, serious consideration of major financing legislation had come to a halt.

At the end of 1981, the President appointed a 15-member bipartisan National Commission on Social Security Reform to find a politically viable solution to social security's financing problems. The Commission worked throughout 1982, reviewing the dimensions of the financing problems and options for solution. Meanwhile, the Congress deferred consideration of any financing legislation, awaiting the recommendations of the Commission.

On January 15, 1983, the Commission reported a bipartisan package of recommendations by a 12 to 3 vote of its members. The "consensus package" included recommendations to: Extend social security coverage to new Federal and all nonprofit employees, include half of the social security benefit in taxable income for those with other income in excess of $20,000 (single) or $25,000 (joint), delay the July cost-of-living adjustment (COLA) for 6 months beginning in 1983, move forward payroll tax rate increases scheduled for 1985 and 1990, raise the social security tax rate on self-employment income, transfer funds to social security to pay for credits granted under social security for military service. The "consensus package" was considered by the Commission to be sufficient to meet the immediate shortfall and to resolve two-thirds of the expected long-term deficit.

The Commission did not reach a consensus on how to resolve the remaining third of the long-term problem, but two proposals for changes to be implemented in 25 to 30 years were suggested, each by a different group of commissioners. One proposal, supported by a majority of the commissioners, was to raise the social security retirement age by a year, phasing in the increase gradually between 2000 and 2015. The second proposal was to raise the payroll tax rate by less than half a percent each on employer and employee in 2010.

With support for the Commission's package from the President, congressional leaders, and several key interest groups, the prospects seemed promising for a quick enactment of a financing bill in the 98th Congress.

A. BACKGROUND

The design of the social security program reflects a compromise among a variety of purposes. This compromise is both a key to the program's broad-based political support and a cause of much of the criticism it receives. For while social security provides a mixture of insurance protection, earned pension benefits, and minimally adequate income in old age, it must make separate concessions in the value of each to achieve a combination that works. The current method of criticizing the program has been to evaluate the quality of benefits from only one perspective. For instance, many point to the possibility that rates of return on social security taxes paid by the highest wage earners may, in the long run, compare poorly with the rates of return on private investments. While it may be popular when discussing social security with a younger worker to focus on only one aspect of the system, this results in a distorted evaluation.

In order to assure accuracy there are a number of features that should be factored into any equation which attempts to measure the value of the social security program:

First, social security provides younger workers with protection from having to bear the unpredictable and random costs of financial support for their own aged parents and relatives. The pay-as-you-go financing for social security, seen from this perspective, uses periodic payments by younger workers to insure their own earnings against the cost of individual parental support. By spreading these costs across the working population, younger workers have a smaller, fairer, and more predictable financial burden, and their parents have a degree of financial independence otherwise impossible. This aspect of the program justifies universal coverage, since exemptions from coverage permit individuals to pass to others the costs of supporting their own parents. It also justifies features which will provide adequate retirement and survivors benefits, so that younger workers will be fully protected from having to supplement the incomes of their relatives.

Second, social security provides workers and their families with a "floor of protection" against sudden loss of their earnings due to their own death, disability, or retirement. This insurance is intended to protect only a portion of the income needed to preserve the previous living standard of the worker and his family, and is to be supplemented through private insurance, pensions, savings, and other arrangements made voluntarily by the worker. Receipt of benefits is based on the occurrence of an insured-against event, such as retirement, which is determined by comparing the individual to some "test" or standard, such as the retirement or earnings test. Should the individual meet the test, benefits then are provided regardless of any income from other sources.

Third, social security provides the individual wage earner with a basic pension benefit upon retirement. Social security benefits, like those provided separately by employers, are related to each worker's own average career earnings. Workers with higher career earnings receive greater benefits than workers with low earnings. Each individual's own earnings record is maintained separately for use in computing future benefits. The earmarked payroll taxes paid to finance the system are often termed "contributions" to reflect their role in accumulating service credits.

This mixture of features in the social security program has been the source of public confusion about the program over the years. The similarities between social security and a pension, for example, have led many people to believe that the system is funded, as a private pension might be, through workers' contributions invested in a trust fund account and used to pay benefits in the future. Others focus on the rate of return on contributions—as if social security were a form of individual investment.

A program with the essential social functions and multiple purposes of social security defies comparison with other financial or insurance vehicles. While a particular vehicle, such as an individual retirement account (IRA), may perform one function more successfully for some than does social security, no single vehicle could perform the unique combination of functions without approximating social security in its features. Most criticisms of social security, therefore, readily translate into criticisms of its mix of functions. For example, some critics believe social security ought to be only a pension plan, leaving the insurance functions and intergenerational support functions to specially tailored alternative programs. Though the use of separate programs would eliminate the necessity of compromises entailed in social security, it would also raise tremendously the total cost of performing all of social security's functions, and most likely jeopardize the widespread political support that has developed for the program.

The social security program, which was created during the Great Depression, is only now becoming a mature social insurance program. The decade of the 1980's will see the first generation of lifelong contributors retiring and beginning to draw benefits. Also during this decade, it is expected that payroll tax rates, eligibility requirements, and the relative value of monthly benefits will finally stabilize at the levels planned for the system. With the provisions of the program established, the task for the Congress is to resolve the financing problems which develop in the social security program when the economy follows unpredictable patterns. While adjustments can be made in tax rates and benefit levels over time to respond to specific financing problems, the challenge for the future is to find ways to cushion the financing of the system against the effects of demographic and economic fluctuations which are bound to occur.

B. FINANCING PROBLEMS

1. Financing in the 1970's

As recently as 1970, the old-age, survivors, and disability insurance (OASDI) trust funds had on hand a reserve equal to 1 year's payout, an amount then considered adequate to meet any changes in expenditures or income due to unforeseen economic fluctuations. When Congress passed the 1972 amendments to the Social Security Act, economic forecasts projected a continuation of the relatively high growth rates and the low rates of inflation which had been experienced during the 1960's. Under these conditions, social security revenues would have adequately covered payouts, and trust fund reserves would have remained sufficient for contingencies.

The 1972 amendments increased social security benefits across the board by 20 percent, and initiated the price-indexing of benefits, and a complex indexing method for computing the initial benefit. A technical error in the method of computing the initial benefit led to an "over-indexing" of initial benefit amounts for new beneficiaries. In addition, when price-indexing of benefits went into effect in 1975, annual inflation rates of around 10 percent began to fuel a rapid increase in payouts from the system. A recession in 1974-75 raised unemployment rates to their highest level since World War II, and slowed the growth in real wages, causing income to the OASDI program to fall below expenditures. Finally, disability insurance trust funds were being steadily eroded because of a continuing rapid increase in beneficiaries.

Beginning in 1973, the board of trustees of the OASDI program began to predict a deterioration in the financial condition of the program in both the immediate future and over the long run. By 1977, the trustees predicted that the DI trust funds would be depleted by 1979, and the OASI trust funds by 1983. The long-run deficit (75-year average) was predicted to reach 8.20 percent of taxable payroll, a dramatic increase from the 0.32-percent average deficit predicted in the 1973 report. By 1977, reserves in the OASDI trust funds had already declined to less than 6 months' payout.

Congress moved in 1977 to correct the financial condition of the OASDI program. The 1977 amendments to the Social Security Act increased the overall payroll tax beginning in 1979, increased the taxable earnings base, reallocated a portion of the hospital insurance (HI) payroll tax rate to OASI and DI, and resolved the technical problems in the method of computing the initial benefit amount (decoupling). These changes were predicted to produce surpluses in the OASDI program beginning in 1980, and continuing over the next 30 years, with reserves building up to 7 months' payout by 1987. The long-run deficit in the OASDI program was to have been reduced from an average 8.2 percent to 1.46 percent of taxable payroll.

Again, however, the economy did not perform as well as forecasts had predicted. After 1979, annual increases in the Consumer Price Index exceeded 10 percent, a rate sufficient to double payouts from the program in just 7 years. Real wage changes have been negative or near zero since 1977, and in 1980, unemployment rates exceeded 7 percent. As a result, annual income to the OASDI program continued to be insufficient to cover expenditures. Trust fund balances declined from $36 billion in 1977, to $26 billion in 1980. Lower trust fund balances, combined with rapidly increasing expenditures, brought reserves down to less than 3 months' payout by 1980.

The 96th Congress responded by temporarily reallocating a portion of the DI tax rate to OASDI for 1980 and 1981. This measure (signed into law as Public Law 96-403) was intended to buy time for the 97th Congress to resolve the shortage of funds in the OASI and DI programs.

2. THE 97TH CONGRESS

The 97th Congress moved quickly in 1981 to address the impending financial shortfall in social security, but quickly encountered the political realities of this issue. Congressional concern about the financing problem had been mounting throughout 1980, and in February 1981, the House Ways and Means Committee began considering comprehensive financing legislation. Simultaneously, proposals to eliminate social security student benefits and minimum benefits were successfully incorporated into the fiscal year 1982 budget legislation.

But the climate for social security reform soon changed. In May, the administration's announcement of a comprehensive social security reform package with immediate benefit reductions touched off an adverse political reaction in the Congress. Enactment of the Omnibus Budget Reconciliation Act of 1981, eliminating the minimum benefit, only added to the controversy. By midsummer there was general disagreement on even the dimensions of the social security financing problems. The Congress did include in the Social Security Amendments of 1981, which restored the minimum benefit for current beneficiaries, a provision authorizing the OASI trust fund to borrow sufficient funds from the DI and HI trust funds to last through July 1983, but this was the last piece of financing legislation considered in the 97th Congress.

At the end of 1981, in an effort to break the political impasse, the President appointed a 15-member, bipartisan, National Commission on Social Security Reform to search for a politically feasible solution to social security's financing problem. The Commission was given a year to develop a consensus approach to financing the system.

Meanwhile, the condition of the social security trust funds worsened. By the end of 1981, OASDI reserves had declined to $24.5 billion, an amount sufficient to pay benefits for only 1½ months. Even though falling inflation rates were helping to keep outgo below projected levels, still-sluggish wage growth and rising unemployment kept income to the system below the level needed to cover outgo. Legislative changes included in the Omnibus Budget Reconciliation Act of 1981 and the Social Security Amendments of 1981 were expected to improve the financial condition of the OASDI trust funds by $2.8 billion in calendar year 1982 alone, and by $21.7 billion between 1981 and 1986. But the 1982 trustees report projected that any financial gains from the 1981 legislation would be totally offset by continuing stagnation in the economy.

By November 1982, the OASI trust fund had exhausted its cashable reserves and in November and December was forced to borrow $17 billion from DI and HI trust fund reserves to finance benefit payments through July 1983.

The delay imposed by the work of the National Commission deferred the legislative solution to social security's financing problems to the 98th Congress. But the Commission did provide clear guidance to the new Congress on the exact dimensions of the various financing problems in social security, and on a politically viable package of solutions.

3. Status of the Trust Funds

Among the achievements of the Commission was reaching complete consensus among the members on the dimensions of the social security financing problem. The Commission concluded that there are actually three separate and distinct financing problems in social security. In July 1983, there is a threat of depletion of the OASI trust fund, due to the poor performance of the economy in recent years. Even with continued interfund borrowing from the DI trust fund, the National Commission on Social Security Reform has concluded that between $150 and $200 billion in additional revenues, reduced spending, or a combination of the two will be required to enable the system to continue paying timely benefits through 1989. With this correction made, and with the scheduled 1990 increase in the payroll tax rate, it is expected that OASDI will begin accumulating annual surpluses in the next decade.

Later in this decade or sometime in the early 1990's, when OASI and DI are improving, the now-healthy hospital insurance (HI) trust fund is expected to begin running large annual deficits. These deficits are expected to grow rapidly, depleting the HI trust fund around 1990. Were OASI authorized in 1983 to continue borrowing from the HI trust fund, with no other solution to the OASI short-term financing problem, the HI fund could be depleted as early as mid-1984. Unlike the immediate financing problem in OASI, there is no indication that the HI trust fund has any chance of recovering without a change in the overall method of financing health care in this country.

In the long run, OASDI is expected to once again experience financial difficulty when the bulge in the population created by the post-war "baby boom" begins reaching retirement age after 2015.

(A) OASDI—SHORT-TERM FINANCING

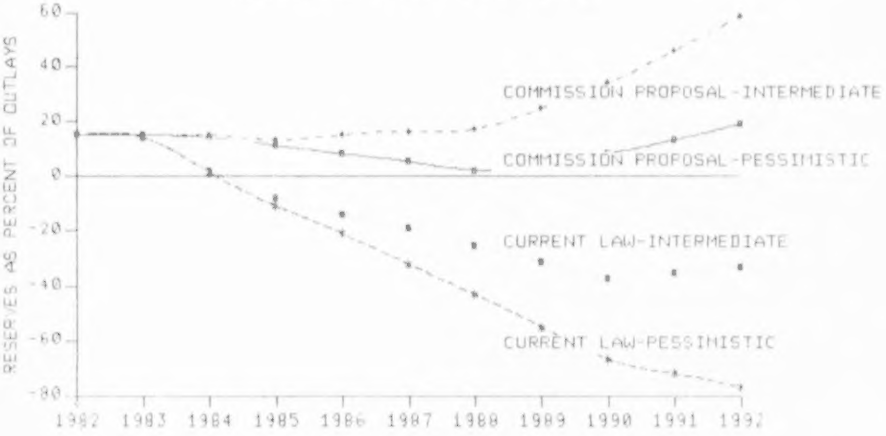
In the immediate future, the fund with the major financing problems is the old-age and survivors insurance (OASI) trust fund. At the end of October 1982, the OASI trust fund had a balance of $10 billion, almost $1 billion less than was needed to make the November benefit payments. As a result, OASI borrowed $0.6 billion from the DI trust fund in November and an additional $16.4 billion from DI and HI in December to enable OASI to meet benefit payments through June 1983. Without further legislation, OASI will most likely have to delay benefit payments for several days beginning in July, with increasing delays each month as the reserves are depleted.

The disability insurance (DI) trust fund is somewhat more sound. Reallocations of the OASDI tax rates in favor of DI in 1977, and in favor of OASI in 1980, have greatly altered the trust fund balances in the DI fund over time. But the existing DI tax rate coupled with the effect of improvements in actual disability experience has maintained a positive cash flow in this program. At the end of October 1982, the DI trust fund had a balance of $6.9 billion. In November and December the DI trust fund loaned $5.1 billion of this reserve to OASI. The National Commission has recommended that the tax rates for OASI and DI be reallocated to achieve roughly equal ratios of trust fund reserves to projected expenditures in each program.

Under intermediate cost estimates (alternative II-B assumptions from the 1983 trustees report) the OASDI combined trust funds are expected to experience deficits averaging about $21 billion a year between 1983 and 1989. Under pessimistic cost estimates (alternative III assumptions) the deficits in OASDI are expected to be about $25 billion a year prior to 1985 increasing to $51 billion by 1989.[1]

CHART 1

OASDI TRUST FUNDS:
ESTIMATED RATIO OF RESERVES TO OUTLAYS
CALENDAR YEARS 1982-1992



SOURCE: SSA, Office of the Actuary, Preliminary 1983 Trustees Report Estimates, February 7, 1083

To maintain trust fund reserves in OASDI equal to 15 percent of projected annual outgo $117 billion in either added revenues or reduced outlays or both between 1983 and 1989 would be required under intermediate assumptions, and $198 billion over that time under pessimistic assumptions. A 15-percent reserve ratio is generally considered the minimum safe reserve margin necessary to enable the system to continue to make timely benefit payments.[2]

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[1] Social Security Administration. Office of the Actuary. Based on assumptions prepared for use in the 1983 trustees report. Tables 2 and 3. Feb. 7, 1983.

[2] Ibid., table 10.

TABLE 1.—ESTIMATED AMOUNTS OF ADDITIONAL OASDI TAX INCOME OR REDUCTIONS IN OASDI BENEFITS REQUIRED IN 1983–89 TO MAINTAIN ASSETS EQUAL TO 15 PERCENT OF ANNUAL EXPENDITURES

[In billions]

	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Based on 1983 alternative II–B:								
Additional tax income	$23	$20	$12	$14	$15	$16	$17	$117
Reductions in benefits	20	20	14	14	15	16	17	116
Based on 1983 alternative III:								
Additional tax income	24	26	22	26	30	34	36	198
Reductions in benefits	21	26	23	26	29	34	36	195

Note.—Estimates represent amounts of additional tax income or benefit reductions required relative to present law. Amounts shown do not include provision for repayment of the $12.4 billion that was borrowed from the HI trust fund in 1982. Thus the amounts required in 1983–89 to maintain a 15-percent asset level and to repay the HI program would equal the above figures plus $12.4 billion.

Source: Social Security Administration Office of the Actuary Feb. 5, 1983.

In recent years, because of continued deterioration in the economy, intermediate forecasts have proven to be more optimistic than actual experience. As a result, there has been increasing support for basing policy decisions on pessimistic assumptions or on higher reserve ratios to guard against the possibility of again being too optimistic.

The National Commission on Social Security Reform adopted this approach in its recommendation that between 1983 and 1989 the Congress improve the financial condition of the trust funds by $150 to $200 billion. Added revenues or savings of this amount would enable OASDI to maintain a 15-percent trust fund reserve under somewhat pessimistic assumptions or to build up a somewhat safer reserve margin should economic performance prove to be better. The changes recommended by the Commission would improve the financial condition of the trust funds by $165 billion between 1983 and 1989, and maintain, under intermediate assumptions, sufficient reserves throughout. Under pessimistic assumptions, the changes recommended by the Commission would need to be supplemented by an additional "fail-safe" proposal to assure that reserves would be sufficient between 1985 and 1987.

(B) MEDICARE FINANCING PROBLEMS

Early in the debate in the 97th Congress on the short-term OASDI financing problem, the financing problem in the hospital insurance (HI) trust fund was generally viewed as a concern for the next decade. The HI trust fund was seen as a source of funds to aid the ailing OASDI trust funds until the 1990 tax increase went into effect. However, over the last 2 years the forecasts for the HI trust fund have grown significantly worse. It is now clear that if the HI trust fund is used to sustain OASDI in the near term, its reserves could be exhausted as early as 1984.

The future deficits in the HI program are a result of forecasts of continuing annual rates of growth in hospital costs exceeding the growth rate in the CPI. In recent years, hospital costs have increased at an annual rate of 10 to 19 percent. Intermediate II–B assumptions project rates of hospital cost increases declining from

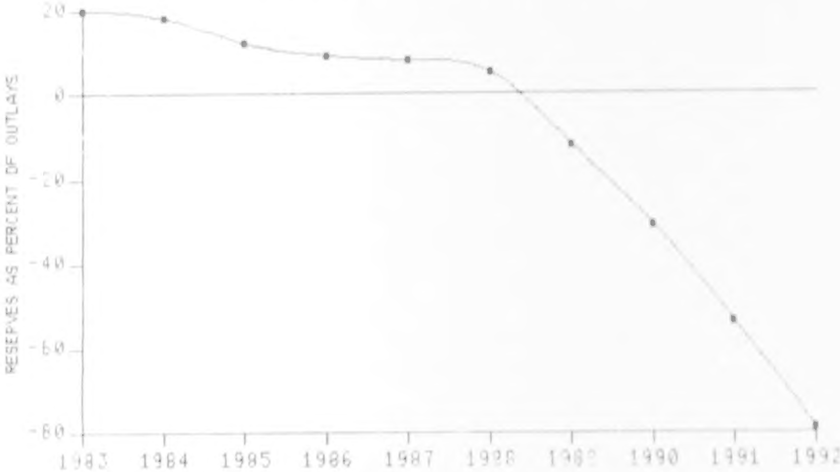
16.5 percent in 1982, to 10 percent in 1995, to 9.3 percent in 2005. These rates of increase are twice the rate of increase projected for the CPI.[3]

From 1981 to 1986, medicare is expected to have small annual deficits, on average. At the beginning of 1982, the HI fund had $18.4 billion in reserves, roughly 52 percent of the estimated outgo for the HI program. By the end of 1986, HI is expected (under intermediate assumptions from the 1983 trustees report) to have a reserve on hand of $5.4 billion, only 8 percent of the estimated payout for 1987.

Beginning in 1987, HI will run ever-increasing annual deficits, leading to an estimated $50 billion deficit (under intermediate assumptions) in 1992. HI will retain a sufficient balance in the trust funds to meet payments on time for the next 5 years, but will be rapidly depleted near the end of the decade.[4]

CHART 2

HI TRUST FUNDS:
ESTIMATED RATIO OF RESERVES TO OUTLAYS
CALENDAR YEARS 1983-1992



SOURCE: SSA, Office of the Actuary, Preliminary Estimates for the 1983 Trustees Report, February 18, 1983

NOTE. This data reflects the effects of enactment of the Commission's recommendations.

Over the next 25 years, under intermediate assumptions from the 1982 trustees report, HI is expected to have an average annual deficit of nearly 1.5 percent of taxable payroll. With no change in the law, this deficit would average 5.21 percent of taxable payroll over the next 75 years—far in excess of the average deficit of 1.82

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[3] 1982 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, table A1.

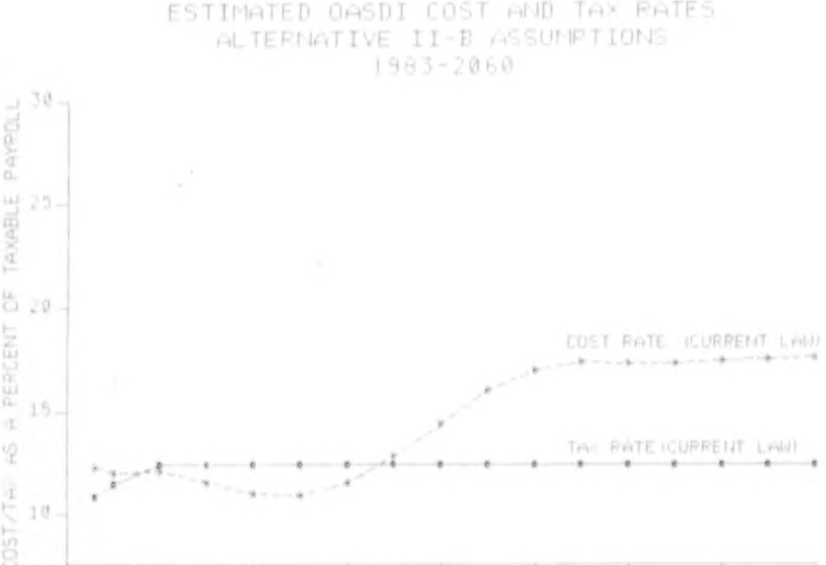
[4] Health Care Financing Administration, Office of the HI Actuary February 1983.

percent of taxable payroll in OASDI, under intermediate assumptions.[5]

(C) THE LONG-TERM OASDI PROBLEM

Forecasts prepared by the Social Security Administration for the 1983 trustees report show that, under intermediate assumptions, annual expenditures for old-age, survivors, and disability insurance (OASDI) will exceed revenues beginning in the early decades of the next century and continuing through the first half of the century. Under these assumptions, expenditures are then expected to begin exceeding revenues around 2015, with the trust funds depleted by 2030. On average, over the next 75 years, expenditures are expected to exceed revenues by an amount equal to an average 2.09 percent of the annual payroll subject to social security taxes. This means that if payroll taxes were to be increased to entirely offset this deficit, the average combined OASDI tax rate over the next 75 years would have to be raised from 12.29 percent, now scheduled for OASDI, to 14.38 percent. The actual OASDI tax rate is presently 10.8 percent and is scheduled to rise to 12.4 percent by 1990.[6]

CHART 3



SOURCE: Social Security Administration, Office of the Actuary. Based on assumptions prepared for 1983 Trustees Report, February 1983.

The picture varies considerably over the three 25-year periods between 1983 and 2057. In the first 25-year period (1983–2007), revenues are expected to exceed expenditures by an average of 0.58 percent of taxable payroll. OASDI trust funds are expected to build to more than 100 percent of annual expenditures after 2000.

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[5] Report of the National Commission on Social Security Reform. Appendix K, table 7B. January 1983.

[6] Social Security Administration. Office of the Actuary. Based on assumptions prepared for use in the 1983 trustees report. Feb. 18, 1983, table 2.

In the second 25-year period (2008–32), the financial condition of OASDI is expected to deteriorate considerably. By 2015 the trust funds will have grown to over 150 percent of annual expenditures. Thereafter, annual deficits will begin eroding the trust funds. The accumulating deficit is expected to exhaust the trust funds shortly after 2025. Over the 25 years, expenditures are expected to exceed revenues by an average 1.89 percent of taxable payroll.

In the third 25-year period (2033–57), annual expenditures are projected to level off, but remain above annual revenues. Expenditures in this period are expected to exceed revenues by an average 4.96 percent of taxable payroll.

TABLE 2.—ESTIMATED AVERAGE OASDI TAX RATES, EXPENDITURES AND ACTUARIAL BALANCE, 1983–2057

[Percentage of taxable payroll]

	25-year average			75-year average,
	1983–2007	2008–32	2033–57	1983–2057
Average scheduled tax rate (combined employer-employee rate)	12.07	12.40	12.40	12.29
Estimated average expenditures	11.49	14.29	17.36	14.38
Difference (actuarial balance)	.58	−1.89	−4.96	−2.09

Source: Social Security Administration. Office of the Actuary. Based on assumptions prepared for use in the 1983 trustees report. Feb. 18, 1983.

The National Commission on Social Security Reform agreed that the long-run deficit was 1.80 percent, based on 1982 trustees report alternative II–B assumptions. The recommendations of the Commission included proposed changes to eliminate two-thirds of this deficit, leaving a long-run deficit of 0.58 percent to be resolved through additional changes. Estimates based on alternative II–B assumptions prepared for use in the 1983 trustees report show a somewhat higher deficit (2.09) due to modifications in fertility and unemployment assumptions, and projections of State and local government and nonprofit terminations. Under the 1983 assumptions, the package recommended by the Commission would reduce the long-run deficit by 1.41 percent of taxable payroll, leaving a deficit of 0.68 percent unresolved.

The projected long-term deficit in social security is expected to result from the problems of financing the needs of an expanding older population on an eroding tax base. The first part of this problem is that there are expected to be proportionately more older people, living longer, and continuing to retire early.

Unusually high birth rates after World War II have already created a bulge in the population—the baby boom generation—which is expected to reach retirement age beginning in 30 years. If life expectancy continues to rise and fertility rates stay low, the relative size of this cohort will be even greater by then.

Future life expectancy gains are projected to be substantial. For men age 65, life expectancy has increased by 2 years since 1940 and is expected, under intermediate assumptions, to increase by another 3 years by 2040. For women age 65, life expectancy has increased by 5 years since 1940, and is expected to increase by another 4 years before 2040.[7]

In addition, low rates of fertility may well keep the younger working population relatively small in the future. Fertility rates of 3 to 3.6 children per 1,000 women resulted in the baby boom in the 1950's and early 1960's. Fertility rates then declined precipitously to 1.8 in the late 1970's and early 1980's—rates below the population replacement rate of 2.1 (the rate which will keep the population the same size with no change in immigration rates). Under intermediate assumptions in the 1982 trustees report, fertility rates are expected to rise slowly, only reaching the replacement rate (2.1) in 2005.[8]

These factors will cause the relative size of the older population to rise substantially. The ratio of older persons (age 65 and over) to the "working age population" (age 20 to 64) has grown from roughly 1 to 6 in 1960, to 1 to 5 in 1980, and is estimated to rise to 1 to 3 before 2030.

If these changes are coupled with a continuation of current patterns of early retirement, the relative size of the beneficiary population will grow substantially. The long-term trend has been for fewer people to continue working beyond age 65. Although roughly one out of four persons 65 and over was working in 1954, only one out of eight did so in 1980. The tendency has been particularly strong among male workers—two out of five men age 65 and over worked in 1954, compared to one out of five in 1980.

The same tendency toward reduced labor-force participation is evident among the 60 to 64 age group, although here, the reduced labor-force participation of men has been offset somewhat by the increased labor-force participation of women. Total labor-force participation of men and women in the 60 to 64 age bracket declined from 55 percent in 1954, to 45 percent in 1980. Male labor-force participation declined from 84 to 61 percent, while labor-force participation of women increased from 27 to 33 percent.

These changes combined are expected to result in more elderly people remaining in beneficiary status for a longer time, thus adding to social security costs, while low birth rates will keep the size of the taxpaying working age group from increasing as rapidly as the beneficiaries. Whereas there are about 3.2 covered workers for every OASDI beneficiary today, there are expected to be about 2 covered workers for every OASDI beneficiary in the year 2030.[9]

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[7] Report of the National Commission, Appendix K, Table 12, January 1983. Assumptions are those used in preparing the 1982 trustees report.

[8] Ibid.

This relative increase in the number of beneficiaries will not necessarily be a problem. Even though there are expected to be fewer workers supporting each beneficiary in 50 years, this added cost per worker will be offset through the increased productivity of the future worker, if productivity gains compare to those experienced over the past 30 years.

While the absolute cost of funding the current structure of benefits in social security is expected to increase substantially over the next 75 years, due to expected increases in the beneficiary-worker ratio, the cost of social security relative to the economy as a whole will not necessarily increase greatly over levels experienced in the 1970's. Currently, social security accounts for about 5.2 percent of the GNP. Under intermediate II-B assumptions (with 1.5 percent real wage growth), social security is expected to rise to about 6.1 percent of GNP by 2030, declining to 5.4 percent by 2060.[10]

However, this relative increase in the number of beneficiaries will be a problem if productivity increases do not occur or the social security tax base is allowed to erode—as it is now projected to. The second part of the long-run problem is that social security is expected to be taxing less and less of the compensation paid to workers in the future. Intermediate II-B assumptions for social security financing assume in the long run that the proportion of compensation paid to employees as nontaxable fringe benefits will continue to grow at a rate of 0.4 percent per year—the average annual rate of growth experienced over the last 30 years. In 1950, fringes accounted for only 5 percent of total compensation, and FICA taxes were levied on 95 percent of compensation. By 1980, fringe benefits had grown to account for 16 percent of compensation leaving only 84 percent to be taxed for social security. Continuation in this rate of growth in fringe benefits, as projected by the social security actuaries, will result by 2055 in nontaxable fringes accounting for 38 percent of compensation, leaving only 62 percent to be taxed for social security.[11]

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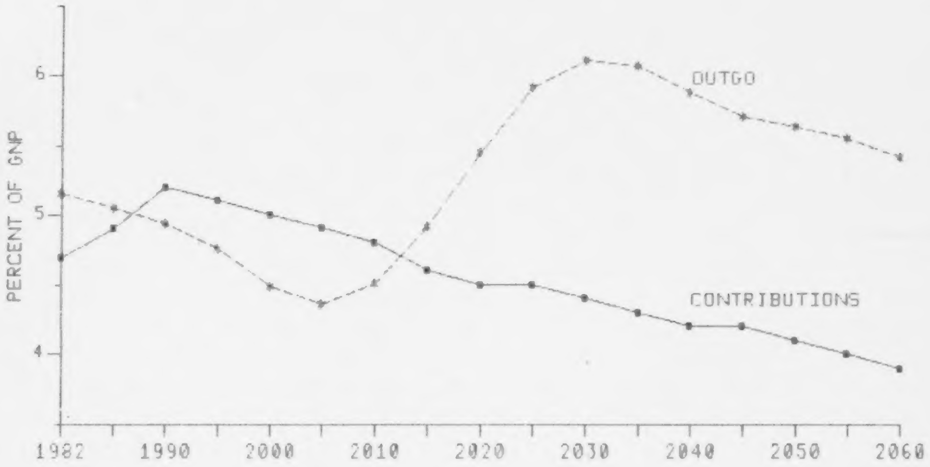
[10] 1982 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. Table 30.

[11] Social Security Administration. Office of the Actuary. Growth in Fringe Benefits. Prepared by John Wilkin, Ronald Gresch, and Milton Glanz. Actuarial Note No. 113, June 1982, pp. 2-3.

CHART 4

OASDI AS A PERCENT OF GNP:
INTERMEDIATE ASSUMPTIONS
1982-2060



SOURCE: Social Security Administration, Office of the Actuary, based on 1982 Trustees Report Assumptions

If this potential growth in fringe benefits does occur, it will cause a substantial reduction in the relative value of the social security tax base. Under intermediate II–B assumptions social security revenues are expected to decline from a high in 1990 of 5.2 percent of GNP, to less than 4 percent of GNP by 2060. The loss of revenues from this shrinkage, assuming a level tax rate after 1990, is roughly equivalent to 1.58 percent of taxable payroll or 90 percent of the current long-run deficit.[12]

C. THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM: ISSUES AND RECOMMENDATIONS

In September 1981, with the Congress deadlocked on social security, President Reagan announced that he would appoint a task force to work with the Congress in arriving at a bipartisan consensus so that the necessary reforms could be enacted. On December 16, the President announced the appointment of 15 members to the National Commission on Social Security Reform.[13] Five of these

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[12] Social Security Administration. Office of the Actuary, also National Commission on Social Security Reform. Adjusting the Payroll Tax Rate to Compensate for the Erosion of the Tax Base Due to the Growth of Fringes. Technical Memorandum No. 50, Sept. 8, 1983.

[13] President Reagan appointed five members: Task force chairman Alan Greenspan, who was chairman of the Council of Economic Advisers under President Ford; Robert A. Beck, chairman of the board of Prudential Insurance Co. of America; Mary Falvey Fuller, vice president for finance of the Shaklee Corp.; Alexander B. Trowbridge, president of the National Association of Manufacturers; and Joe D. Waggoner Jr., former Democratic House Member from Louisiana and a consultant with Bossier Bank Trust Co. House Speaker Thomas P. O'Neill Jr., D-Mass., named five members: Former Social Security Commissioner Robert M. Ball; former Representative Martha Keys. D-Kan.; Representative Claude Pepper, D-Fla., chairman of the Select Committee on Aging; Representative Bill Archer, R-Texas; and Representative Barber B. Conable

Continued

members were selected by the President, five by the Speaker of the House, and five by the Majority Leader of the Senate. Seven of those appointed to the Commission were Members of Congress, including Senator John Heinz, chairman of the Senate Special Committee on Aging. The Commission was chaired by Alan Greenspan, an economic adviser to the President, and former Chairman of the Council of Economic Advisers under President Ford.

In his Executive order establishing the Commission, the President charged the Commission with:

—Reviewing relevant analyses of the current and long-term financing condition of the social security trust funds.

—Identifying problems that may threaten the long-term solvency of such funds.

—Analyzing potential solutions to such problems that will both assure the financial integrity of the social security system and the provision of appropriate benefits; and

—Providing appropriate recommendations to the Secretary of Health and Human Services, the President, and the Congress.

The Commission was directed to make its report to the President by December 31, 1982.

The Commission met nine times during 1982 to review the social security financing problems and options for resolving them. Though they acknowledged the future financing problem in the HI trust fund, the members directed their attention exclusively to the more immediate OASDI financing problems. The Advisory Council on Social Security, appointed in 1982, was directed to address the financial condition of the medicare program.

In November, the Commission reached a consensus on the dimensions of the financing problems. They concluded that for the purposes of solving the financing problems, the OASDI trust funds need $150 to $200 billion in additional revenues, savings, or a combination of both between 1983 and 1989, and that over the next 75 years, the actuarial imbalance in OASDI trust funds is equal to 1.80 percent of taxable payroll. The members also agreed that in solving the financing problems the Congress should not alter the fundamental structure of the social security program or undermine its fundamental principles.

The Commission continued to work on a bipartisan consensus on changes to finance the system, and with a 2-week extension in the reporting date, succeeded in reaching a consensus among 12 of the 15 members of the Commission[14] on January 15, 1983. The consensus recommendations were immediately endorsed by the President, the Speaker of the House, and the Majority Leader of the Senate.

The consensus package of the National Commission on Social Security Reform includes recommendations on solutions to the financing problems in four broad areas: Coverage, tax rate changes, benefit modifications, and miscellaneous financing measures. In ad-

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Jr., R-N.Y. Senate Majority Leader Howard H. Baker Jr., R-Tenn., appointed the final five: Senate Finance Committee Chairman Robert Dole, R-Kan.; Senators Daniel Patrick Moynihan, D-N.Y., William L. Armstrong, R-Colo., and John Heinz, R-Pa.; and AFL-CIO president Lane Kirkland.

[14] The 12 members voting in favor of the "consensus" package were Commissioners Ball, Beck, Conable, Dole, Fuller, Greenspan, Heinz, Keys, Kirkland, Moynihan, Pepper, and Trowbridge. The 3 members voting against the package were Commissioners Archer, Armstrong and Waggonner.

dition, the Commission made several recommendations with no significant financing implications. The following sections include a review of the issues in each of these areas and the changes recommended by the Commission.

1. Coverage

(A) BACKGROUND

When taxes were first collected for the old-age insurance (OIA) program in 1937, mandatory coverage was initially extended only to private sector workers in commerce and industry. As of 1939, only 43 percent of the labor force was covered by social security. In the 1950's and 1960's mandatory coverage was extended to farm and domestic workers, the self-employed, the military, physicians, ministers, and some members of religious orders. Coverage was extended on an elective basis in 1950 and 1954 to employees of nonprofit organizations and State and local government entities. Today about 115 million workers or 95 percent of all jobs are covered. This includes 70 percent (9.4 million) of all State and local government employees and about 85 percent (4.5 million) of the employees of nonprofit organizations.

Federal employees were initially excluded from participation in social security because most were already covered under the civil service retirement system (CSRS). State and local government employees and employees of nonprofit organizations were excluded because of concern that mandating coverage might raise some difficult constitutional questions. In the case of State and local governments the constitutional issues have revolved around the immunity of States from Federal taxation, and limits on Federal interference in the employer-employee relationships of States. In the case of nonprofit organizations, concern has been centered on whether removal of the tax exemption from social security would lead to a general loss of their tax exempt status, and whether this form of taxation would constitute a violation of principles of separation of church and state, "free exercise" of religious beliefs, and "free assembly."

The constitutional problems have been avoided by allowing State and local governments and nonprofit organizations to elect to cover their employees.

Federal civilian employees are the only regularly employed group of workers who remain entirely outside of the social security system. Of all workers not covered, 2.7 million are Federal civilian employees. Another 3.5 to 4 million are employees of State and local governments and nonprofit organizations that remain outside the system by choice.

(B) ISSUES

Social security from its beginning was designed as a universal social insurance system. As a universal system it can provide a fully portable foundation of insurance protection and retirement benefit accumulation throughout each individual's working career. As a universal system, it can also share the basic costs of supporting the retired generation reasonably equitably among those still working. Incomplete coverage of the working population creates problems of inconsistency and inequity in the treatment of individuals resulting almost randomly from variations in individual career patterns. Some individuals who move between covered and noncovered employment are able to profit from entitlement to benefits under social security and full alternative pension benefits. Other less fortunate mobile workers suffer benefit losses and gaps in insurance protection as a result of their split careers. Incomplete coverage of the work force is of concern not only because it may result in inadequate protection for workers, but also because of the perceived unfairness of exempting some workers from participating in the intergenerational transfer of income.

The major coverage issue is whether or not it is feasible to extend mandatory coverage to the three major groups which are either excluded or are covered on a voluntary basis. Full and immediate mandatory coverage of the entire working population, were it practical, would eliminate all other concerns regarding coverage. Barring full coverage, there are two other major coverage concerns. One is that State and local and nonprofit employers who have elected to cover their employees may also elect to terminate social security coverage for their employees at any time, and are beginning to do so in record numbers. The second is that those who work most of their careers in noncovered employment frequently become entitled to social security and receive social security benefit "windfalls" in addition to the benefits they have earned.

(1) Coverage of Federal Employees

Proposals to extend social security coverage to Federal employees are motivated by three concerns: A growing interest in reforming the civil service retirement system, popular opposition to excluding Federal employees from social security, and a need to improve both the immediate and the long-run financial condition of the social security system.

Pressure to reform the civil service retirement system (CSRS) has surfaced most recently in the context of the budget debate. Although many people think that Federal workers finance their own retirement system with matching contributions from their employer, in fact the system is largely financed by taxpayers through annual general fund appropriations and interest payments. While employees contribute 7 percent of salary to the retirement fund, annual Federal Government payments to the fund, excluding matching employer contributions, amount to 23 percent of payroll. And these payments are projected to grow in proportion to the total cost of the program. Today the Government finances two-thirds of the total cost of the program, in 50 years the Government is expected to be paying three-quarters of the cost. In real terms, the cost to the Government is expected to rise from $9.6 billion in 1980, to $13.6 billion in 1990, and $20.2 billion in 2030.[15]

The two factors causing the greatest increase in the cost of civil service retirement are the annual automatic cost-of-living adjustment (COLA) and the provision allowing retirement with unreduced benefits at age 55. These features of the CSRS are coming under increasing scrutiny. In the fiscal year 1983 budget, the Congress enacted a 3-year reduction in Federal civilian and military COLA's for retirees under age 62. And the Reagan administration has included proposals in the fiscal year 1984 budget to increase the age of retirement and delay cost-of-living adjustments for all retirees.

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[15] U.S. Congressional Budget Office. Civil Service Retirement: Financing and Costs. Washington, U.S. Govt. Print. Off. Table 2. May 1981.

Alternative proposals for controlling the costs of the CSRS have suggested a complete overhaul of the retirement plan provided to new Federal hires, including coverage under social security. For example, Senator Stevens introduced a bill (S. 2905) in the 97th Congress which would have provided new Federal employees with social security coverage based on their own and a matching employer's contribution of roughly 7 percent of salary. In addition, the Stevens bill would have provided a supplemental pension plan financed entirely by an employer contribution averaging 14 percent of salary, and a voluntary thrift plan with a matching employer contribution of up to 3 percent of salary. This combination was expected to produce substantial cost savings to the Government within 20 to 30 years.

Another focus of the reform effort has been concern about the adequacy of retirement benefits for a portion of the Federal work force. Full career Federal employees usually do well in the CSRS, but at the expense of more mobile employees. The civil service retirement system, like most employer-provided pension plans, tilts its compensation to reward long service and later termination, and provides a proportionately high compensation to highly paid workers. Social security, by contrast, provides a basic retirement income to all employees, tilts its benefits to provide higher proportional compensation to lower paid workers, and does not penalize workers for job mobility or early termination.

Workers covered by social security plus an employer-provided retirement plan receive the contrasting advantages offered by each. However, Federal workers, covered only by the employer-provided plan, may receive inadequate benefits because they are not covered by social security. This inadequacy stems in large part from the lack of portability in Federal pension benefits. Employees must work 5 years to become vested in any benefits, and must work 10 years before the benefit formula begins crediting at full rates. Employees who leave after vesting may choose to withdraw their own contributions instead of qualifying for benefits, but if they do, they forego the value of the Government's share. If they leave their contributions in the system, they will receive benefits upon retirement, but the benefits will be fixed in relation to their salary at the time they left Federal service. Because of these limitations, Federal employees who spend less than a full career in Federal service frequently receive little retirement income of value for their years of service with the Government. OPM estimates that 62 percent of all new Federal employees will receive no Federal pension benefits at all. In all, two-thirds of the civil service retirement benefits will go to one-fourth of the Federal employees. This would be less of a problem if those who left Federal service early received indexed or transferable credits for their years of service. But lack of social security coverage effectively denies them the portable retirement benefits they would otherwise have received in the private sector.

On the other hand, those who remain in Federal service for 30 years can receive substantial retirement income. The civil service retirement system is intended to provide retired Federal employees with a nearly full replacement of their highest Federal salary since they are not covered by social security. It therefore pays benefits more than three times the average benefits paid by those private retirement plans designed to supplement social security.[16] For example, the average monthly benefit for a Federal employee retiring at age 55 with 30 years service in 1981 was $1,242.[17] With the early age for retirement from the civil service, it is not unusual for career Federal employees to retire and work sufficiently in private employment to also qualify for social security benefits. It is estimated, as of 1979, that 73 percent of all civil service annuitants over age 62 currently receive social security benefits.[18]

The public perception of unfairness comes in part from the sense that civil service retirement provides unnecessarily plush benefits to Federal retirees at the taxpayer's expense. It is compounded by public concern that the administrators of social security and Members of Congress have chosen to exclude themselves from the retirement program in which everyone else must participate. With social security in financial trouble, and only a limited range of unpleasant options available to restore solvency, there has been a growing public sense that continued exclusion of Federal workers from social security is a luxury the taxpayers can no longer afford.

Extension of social security coverage to Federal employees has been particularly attractive because of its potential to improve both the immediate and the long-run financial condition of the social security system. In the immediate future, including only newly hired Federal employees in social security, is estimated to add $1 to $3 billion a year to social security revenues. Because there would be few benefit payments to new Federal employees in the early years, this change would improve trust fund balances by $9 billion between now and 1989. On average over the next 75 years, the inclusion of Federal workers would result in an improvement of the trust funds equal to 0.29 percent of the taxable payroll. The long-run savings in social security would result from the relatively high salaries and steady work histories of Federal employees and from elimination of benefit "windfalls."

Opposition to extending mandatory coverage to new Federal employees has come largely from groups representing current Federal employees and retirees. These groups generally cite three reasons for opposing social security coverage for new hires: (1) It will raise the cost to the taxpayer of financing retirement benefits for Federal employees; (2) it will help social security only in the short term and will only add to its deficits in the long run; and (3) it will bankrupt the civil service retirement fund in a few decades. These concerns, however, are not well-founded.

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[16] Employee Benefit Research Institute. Special Tabulation of the March 1980 Current Population Survey.

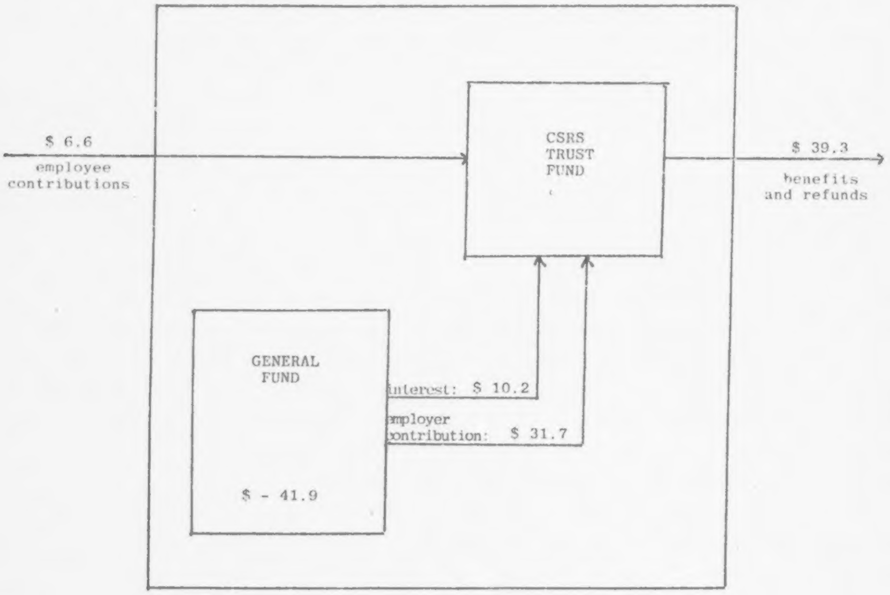
[17] U.S. Office of Personnel Management. Federal Fringe Benefit Facts, 1981. Table 4.

[18] Social Security Administration. Research and Statistics Note No. 6. Dec. 30, 1982.

(a) Cost of coverage to the Government

Some employee groups claim that covering new Federal workers under social security will result in additional costs to the Government as an employer. However, this conclusion is based on a misunderstanding of where the Government's cost is actually incurred. The cost to the Government of financing retirement benefits for Federal employees is the amount by which annual benefit and refund payments exceed annual revenues from employee contributions. Total Federal civilian retirement costs are now 37 percent of payroll, of which 7 percent is employee contributions and 30 percent is Government cost. This cost is determined by the contribution rate and the benefits paid, and is not affected by the way in which various civilian retirement programs are accounted for or funded in the budget. Therefore, as long as the basis for collecting contributions or making payments remains the same, merely covering one group of employees under a different plan in the budget will not make a difference in the cost to the taxpayer. However, if new Federal employees are covered under a plan resulting in a different rate of employee contributions or benefit payments, then total Government retirement costs will change.

CHART 5. CURRENT CIVIL SERVICE RETIREMENT SYSTEM ESTIMATED COSTS, 1990



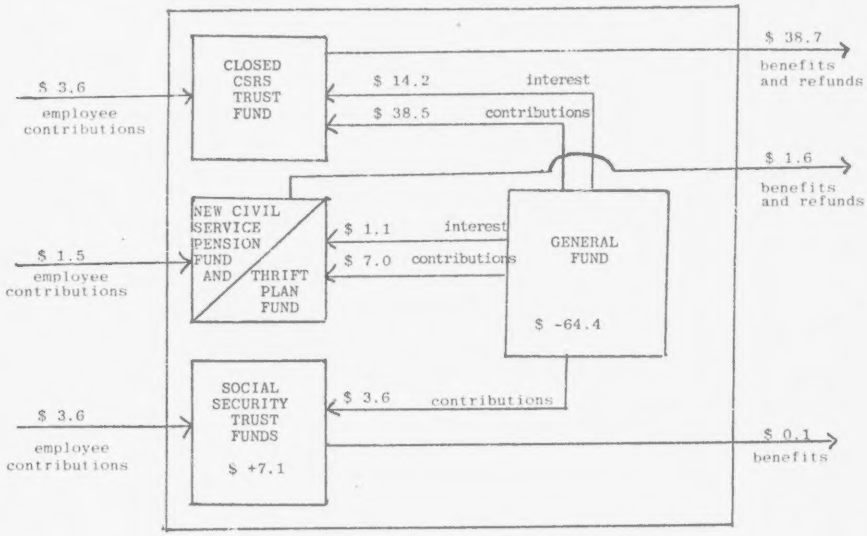
BUDGET EFFECT: Revenues: $ 6.6
Outlays: 39.3

NET: -32.7

Source: Employee Benefit Research Institute, September 1982.

Chart 6 shows the effect on the budget of enacting S. 2905 (the Stevens bill). New employees hired after December 1983 are covered under social security plus a new civil service pension and thrift plan. Current employees remain covered under the old civil service retirement system. Note that the effect of coverage on the budget is minimal. The current system will add $32.7 billion to budget deficits. Coverage will reduce this cost by $1 billion. If the CSRS trust fund is to be fully funded over a 40-year period, the cost to the general fund will increase by $22.5 billion. However, this added spending from the general fund to the closed CSRS trust fund is immediately loaned back to the Treasury, with no added cost to the Government.

CHART 6. MODIFIED CIVIL SERVICE PENSION SYSTEM WITH SOCIAL SECURITY COVERAGE FOR NEW FEDERAL EMPLOYEES, 1990


$ 3.6
employee contributions
CLOSED CSRS TRUST FUND
$ 14.2
interest
$ 38.5
contributions
$ 38.7
benefits and refunds
$ 1.6
benefits and refunds
$ 1.5
employee contributions
NEW CIVIL SERVICE PENSION FUND AND THRIFT PLAN FUND
$ 1.1
interest
$ 7.0
contributions
GENERAL FUND
$ -64.4
$ 3.6
employee contributions
SOCIAL SECURITY TRUST FUNDS
$ +7.1
$ 3.6
contributions
$ 0.1
benefits

BUDGET EFFECT: Revenues: $ 8.7
Outlays: 40.4

NET: -31.7

Source: Employee Benefit Research Institute, September 1982.

Covering new Federal employees under a combination of social security and a supplemental pension is likely to result in a reduction in total retirement costs for several reasons. First, social security coverage will raise the age of retirement for new Federal employees by about 3 years. Currently, a Federal employee with 30 years' service may retire with full benefits at age 55, and half of all Federal retirees begin drawing benefits by age 61. However, social security will not pay reduced retirement benefits before age 62, and will not pay full benefits until age 65. Half of all social security retirees do not begin collecting benefits before age 64. With Federal employees working longer, total benefit payments will be less. Second, full career coverage for new employees under social security will eliminate for them the social security benefit "windfalls" received by current employees with split careers in covered and noncovered employment. Third, future cost-of-living indexing may also be reduced somewhat for the pensions of new Federal employees. The current civil service retirement system provides full annual cost-of-living indexing for the entire civil service pension. If the new combined retirement plan is made comparable to the best private sector plans, it is possible that something less than full cost-of-living indexing will be provided for the supplemental employer-financed pension. While none of these differences would result in any near term cost savings, in the long run the total cost to the Government of civilian employee retirement would most likely be substantially lower as a result of covering new Federal employees under social security.

(b) Effect on the long-run social security deficit

Employee groups also claim that covering new Federal employees under social security will only help social security financing in the short run. In the long run, they claim, covering Federal employees will cost more in added benefits than it will raise in added revenues. This conclusion contradicts the evidence. In fact, coverage of new Federal employees is expected to provide social security with added revenues in excess of its added benefit obligations in each year over the entire [illegible]-year forecast period. Even in the last 25 years of the forecast period (2031–2056), when tax revenues from currently covered employment are expected to fall short of financing social security benefit payments by 4.41 percent of taxable payroll, tax revenues from Federal employment would exceed Federal retirees' social security benefit payments by an amount equal to 0.21 percent of taxable payroll.

TABLE 3.—*Effect of coverage of new Federal employees on the OASDI long-run deficit, 1985 to 2060*

Year:	Percent[1]
1985	0.06
1990	.17
1995	.25
2000	.30
2005	.34
2010	.37
2015	.41
2020	.44
2025	.43
2030	.37
2035	.30
2040	.23
2045	.19
2050	.16
2055	.15
2060	.14
25-year averages:	
1982 to 2006	.21
2007 to 2031	.41
2032 to 2056	.21
75-year average, 1982 to 2056	.28

[1] Excess of revenues over payments due to coverage—as a percent of social security taxable payroll.

Source: Social Security Administration. Office of the Actuary. Based on 1982 trustees report intermediate II-B assumptions.

This positive long-run effect on social security financing results from two factors. First, most Federal employees receive social security benefits anyway, but new Federal hires will have to make a lifetime of social security tax payments and will no longer be able to receive the benefit "windfalls" which resulted from short periods in covered employment. Second, because the Federal work force has a higher proportion of highly paid workers than the private work force, annual tax payments to social security would be higher than average tax payments, while average benefit payments would be lower in relation to average earnings.

(c) Effect on the CSRS trust fund

Employee groups seem most worried that covering new Federal hires under social security will deprive the civil service retirement fund of their contributions, inevitably leading to bankruptcy in just 20 years. They argue that in order to prevent the bankruptcy of the CSRS trust fund, the Congress will have to increase annual appropriations to the trust funds, and this will ultimately cost the taxpayers more. This conclusion is based on the faulty assumption that the CSRS is, at least in part, a funded pension system, and, therefore, limited in the amount of benefit payments it can make by the amount of assets in the trust funds. In fact, the civil service retirement system is financed on a pay-as-you-go basis, with a trust fund account in the Federal budget. In any given year, the real cost of civil service retirement is the cost of making annual benefit and refund payments. If, in a particular year, the Congress appropriates an amount in excess of the cost of payments, the difference is credited to the trust fund. This amount is then used to purchase special Government securities—in other words, it is loaned back to the general fund to be repaid at some future date with interest. Because this is in effect returning to the general fund the amount appropriated, this transaction has no net effect on either the general fund or the taxpayer. When the trust fund redeems these securities to make benefit payments, general revenues must actually be spent.

In short, because the assets of the trust funds are all invested internally in the budget, the only actual expenditure of tax dollars occurs when benefit payments are made. No matter how large the civil service retirement trust fund reserves become, they do not lessen the burden on taxpayers of meeting benefit obligations to Federal retirees in the year they come due. The trust fund reserves themselves only serve to convert an unspecified future obligation to pay benefits into a paper claim against future general revenues. If appropriations for the full amount of unfunded liabilities were made to the CSRS, the additional revenue, which would not be needed to pay current benefits, would immediately return to the Treasury in the form of a CSRS investment. Because these two transactions would be equal and would both occur within the budget, there would be no effect on the budget or on taxpayers. The only change would be to transform unfunded liabilities of the CSRS, i.e., demands on future taxpayers to honor obligations to Federal employees, into funded investments, i.e., demands on future taxpayers to honor Government liabilities.

Reduced contributions to the CSRS resulting from coverage of new Federal hires will reduce revenues to the CSRS trust fund if annual general fund appropriations remain the same. However, these reduced revenues could easily be offset by increasing annual appropriations by 50 percent. The increase in appropriations would have no effect on either the budget deficit or the cost of the program. It would increase, by an equal amount, the funds credited to the CSRS trust fund and loaned back to the Treasury. In other words, it would increase the amount of Government debt held by the Government. In so doing, it would create a paper obligation to pay for the retirement benefits of current employees out of future general revenues. But it would do nothing to change the fact, which is inescapable even without coverage, that future retirement benefit payments to current Federal employees must be paid for by future taxpayers.

(2) Coverage of State and Local and Nonprofit Employees

Although the reasons for extending mandatory coverage to State and local and nonprofit employees are similar to those for covering Federal employees, the circumstances are quite different. Originally, employees of State and local governments were excluded from coverage because many of these employees were already covered under public pension plans and because it was unclear whether the Federal Government could impose a compulsory tax on State and local entities. Certain tax-exempt nonprofit groups were also not brought under mandatory coverage because many of these groups feared that the social security tax would call into question their general tax-exempt status. However, during the 1940's a consensus emerged that the constitutional and legal issues raised by compulsory coverage could be avoided by permitting these employers to elect to cover their employees. In 1950, elective coverage was extended to State and local governments whose employees were not already under a public retirement system and tax-exempt nonprofit (501(c)(3)) organizations. Elective coverage was further extended in 1954 to State and local governments whose employees were already covered under a public retirement system.

Elective coverage, as it was developed in the 1950 amendments, followed the principle that coverage applied to the job through the employer, and not to the individual worker; and further that the unit of coverage was a group of jobs. Coverage through the employer and group coverage minimized the potential for optional participation in the system. Social security coverage for employees of States and their political subdivisions occurs through agreements between the Secretary of Health and Human Services and the States. Under the agreements, each State decides which groups of employees are to be covered. Groups whose members are covered under an existing retirement system must approve coverage through a referendum. Work performed for a nonprofit, religious, charitable, educational, or other tax-exempt organization is covered if the organization files a certificate waiving its exemption from social security taxation.

As a consequence of elective coverage, State and local governments and nonprofit organizations are also allowed to terminate social security coverage for their employees. States may terminate after social security coverage has been in effect for 5 years by giving 2 years' notice to the IRS of intent to terminate. Nonprofit organizations may terminate coverage in the same fashion but only after 8 years of participation in the system. Once coverage has been terminated for a group of employees, it cannot be restored for this group again. Termination of coverage have become an issue because of a recent acceleration in the trend. From 1950 to the late 1970's, more employers opted into the system each year than opted out. Then, beginning in 1977, this trend reversed. The first great influx of State and local termination notices was in response to the deterioration in social security's financial status prior to the enactment of the 1977 amendments. Recently, there has been another rash of terminations, dominated this time by terminations among nonprofit hospitals. Since the 1950's, about 881 State and local entities have terminated coverage, affecting about 172,000 jobs, and about 200 nonprofit organizations have terminated, affecting an unknown number of jobs. As of the end of 1982, termination notices were pending for 635 State and local entities affecting 228,000 employees, and 935 nonprofit organizations, of which 425 were hospitals with 334,000 employees. While only a small portion of State and local and nonprofit employees have been affected by terminations, the loss of revenues to the social security system may prove to be substantial. If only those employers terminate who have notices currently pending, the loss of revenues to the system will exceed $1 billion a year by 1984.

(a) State and local coverage issues

Most State and local government employees are now covered under social security. Of the 30 percent (or 3.8 million) who are not covered, more than half are concentrated in four States: California, Ohio, Illinois, and Massachusetts. Four other States also have large concentrations of noncovered workers: Louisiana, Colorado, Maine, and Nevada.

The reasons for extending mandatory coverage to State and local governments are similar to those for covering Federal employees. Incomplete coverage of the working population under social security creates inequities and inadequacies. Some who move between covered and noncovered employment receive inadequate pension benefits from noncovered jobs due to either vesting restrictions or benefit formulas weighted to reward long tenure. At the same time, they may receive reduced social security benefits due to the exclusion of noncovered earnings from their benefit calculation. They may also experience gaps in disability and survivors insurance protection. On the other hand, those who spend full working careers in noncovered employment and receive substantial pensions from such employment frequently become entitled to social security and medicare benefits anyway, some receiving unintentional benefit "windfalls" in the process.

The problems of extending mandatory coverage to State and local entities are complex. Some contend that there are insurmountable constitutional barriers to mandatory coverage. In addition, there are added costs which nonparticipating State and local governments would likely experience in making the transition to a plan coordinated with social security.

The basic constitutional issue derives from limits on the commerce and taxing powers of the Congress. The question is: Can the Congress force the States to pay social security taxes? Those who contend that mandatory coverage would be unconstitutional refer to the 1979 Supreme Court decision in *National League of Cities* v. *Usery* (426 U.S. 833) in which the Court invalidated Congress 1974 extension of wage and hour provisions of the Fair Labor Standards Act to State and local employees. The Court's decision relied heavily on the argument that the States have inherent constitutional immunity from Federal taxation. The Court also stressed that the wages and hours amendments would have altered or displaced the States' ability to structure employer-employee relationships. While *National League of Cities* is cited as evidence that the Court would not uphold compulsory social security taxation of the States as employers, other methods to achieve State and local employee coverage to avoid such constitutional barriers have been suggested. These include: Taxing employees the full employer-employee tax rate and covering them under the same provisions applying to the self-employed, or increasing the incentives, such as through conditional grants, for State governments to elect coverage for groups of employees within the State.

Covering previously uncovered State and local government entities would be likely to raise retirement system costs and create transition problems for these States. The "Universal Coverage Study," [19] in reviewing the status of pension plans for uncovered State and local employees, concluded that, in general, coordinating previously separate public employee retirement systems with social security tax payments would raise total retirement system costs by 5 to 10 percent of payroll. The cost of coordinating these plans would be higher because: (1) Social security now provides full cost-of-living indexing, a more expensive feature than the typical 3 percent annual increase provided in most public pensions; (2) most public pensions allow retirement before age 62, a plan cost which would have to be fully met by the State even under a coordinated plan; (3) high employee turnover in State and local agencies (which helps to keep pension plan costs low by eliminating or reducing benefit payments to employees who leave early) would not affect the cost of social security; and (4) States would have to begin paying for medicare, a benefit most of their employees now receive without paying the tax.

Extending coverage to previously uncovered State and local employees would also create financing difficulties for some public plans, particularly those operated on a pay-as-you-go basis. These would occur since a portion of the revenues once allocated to the retirement system would now be paid out to the Federal Government for social security. In order to make benefit payments, these States would have to increase spending on the retirement system to make up for these lost revenues.

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[19] Report of the Universal Social Security Coverage Study Group. The Desirability and Feasibility of Social Security Coverage of Employees of Federal, State, and Local Governments and Private, Non-Profit Organizations. March 1980.

In this way, the cost of coverage for State and local governments is different than it is for the Federal Government. The Federal Government can divert payments from the civil service retirement system to social security without raising total retirement costs or jeopardizing CSRS funding, since both programs are in the same Federal budget, and payments have to be made only when benefits come due. The States, however, transfer social security taxes to the Federal Government and must finance these each year, in addition to making benefit payments from the retirement system. The variety in State and local pension plans makes it difficult to assess these costs. Nevertheless, there would be substantial transition problems resulting from mandatory coverage of State and local governments.

(b) Nonprofit coverage issues

Nearly all employees of nonprofit organizations are already covered under social security. Only about 15 percent (less than 1 million) remain outside the social security system. However, in recent years, there has been a growing trend among nonprofit organizations to terminate social security coverage. More than 900 nonprofit organizations with close to a half million employees have notified the IRS of their intent to terminate within the next 2 years. Terminations of social security coverage are in part a response to the increasing cost pressures on educational and charitable organizations. Nonprofit employers outside of social security can take advantage of the mobility of their work force and social security's extensive coverage to design low-cost pension plans which supplement social security. Since nearly all of their employees can be expected to receive social security and medicare benefits either through their own earnings record based on other employment, or the earnings record of a spouse, noncovered employers need finance only supplemental retirement and insurance benefits themselves.

Extending coverage to nonprofit organizations raises few of the controversial issues raised by mandatory coverage of State and local governments. The inequities and inadequacies resulting from noncovered employment are clearer in the nonprofit sector because workers are more mobile, and pension coverage is much less complete. Where pensions do exist without social security coverage, employers are often able to keep pension costs down by capitalizing on the mobility in their work force through restrictive vesting provisions or offsets against social security benefits. At the same time, the mobility in the noncovered nonprofit work force leads to the same gaps in coverage and losses of retirement benefits found in other types of noncovered employment.

Although there are areas for potential legal challenges to mandatory coverage of nonprofit organizations, these objections are thought to be less substantial than those to coverage of State and local employees. Possible challenges from religious organizations could be based on first amendment protections to the free exercise of religion. However, individual ministers and other members of certain religious groups are already allowed to obtain exemption from the self-employment tax for reasons of conscience. Mandatory coverage of secular, nonprofit organizations might be challenged as a violation of the first amendment protections accorded "free assembly." In none of these cases, however, does the imposition of social security taxes seem a particularly clear or even significant infringement on these first amendment rights.

A more substantial barrier to mandatory coverage of nonprofit organizations is imposed by the difficulty of identifying and taxing many of the existing nonprofit organizations. Many nonprofit projects are temporary, depend heavily on volunteer support, and never come to the attention of the Federal Government. There is little information either on the number of nonprofit organizations in existence or on the number of individuals working in them. The sporadic nature of employment in the nonprofit sector makes social security coverage for the employees important on the one hand, but difficult to accomplish on the other.

(3) Benefit "Windfalls"

Workers who spend large portions of their working careers in noncovered employment and who also meet the minimum coverage requirements to qualify for social security benefits, can enjoy an inadvertent advantage. They receive, in addition to the social security benefit related to their earnings, an unintended subsidy or "windfall." This happens because the social security system, by virtue of its career averaging of earnings, is unable to distinguish between an individual with a short period of high earnings, and an individual with a long period of low earnings.

Benefits are calculated in social security on the basis of average indexed monthly earnings (AIME). An individual's AIME is his total earnings over 35 years, adjusted (indexed) to current wage levels and divided by the total number of months in that period, whether or not he had earnings in those years. An individual with many years of "zero earnings" under social security will generally end up with a lower AIME than an individual with few years of "zero earnings." The AIME that is calculated is then applied to a benefit formula which (in 1983) provides the worker with 90 percent of the first $254 of AIME, 32 percent of the AIME between $254 and $1,528, and 15 percent of the AIME in excess of $1,528. The resulting amount is the worker's primary insurance amount (PIA) which is the basic social security monthly benefit.

A worker who has high earnings under social security for only part of a career, and spends most of his career in noncovered employment will have a low AIME because of all the "zero earnings" years. A worker with a full career at low wages under social security could end up with a similar AIME. Both workers will receive a benefit amount heavily influenced by the 90-percent factor. In other words, the "replacement ratio" (i.e., the ratio between the retirement benefit and the covered earnings of the worker) would be quite high for both the low-income worker and the high-income noncovered employee. On the other hand, a worker with the same career earnings as the noncovered employee, who had all of his earnings covered under social security, would end up with a much higher AIME, and would, therefore, receive a benefit which replaced a much lower proportion of his covered earnings. The table below shows, for three workers with identical earnings, how noncovered employment increases the replacement rates and benefits paid.

TABLE 4.—EARNINGS CREDITS, PRESENT LOW BENEFITS, AND ESTIMATED WINDFALLS FOR THREE HYPOTHETICAL WORKERS WITH IDENTICAL WAGE STREAMS

Earnings credits	Worker A	Worker B	Worker C
Covered	$12,000	$6,000	$3,000
Not covered	0	6,000	9,000
Total	12,000	12,000	12,000
AIME	1,000	500	250
Present law:			
PIA [1]	432,70	272.60	192.60
Replacement rate (percent)	43	55	77
Target benefits:			
Replacement rate (percent)	43	43	43
PIA	432.60	216.30	108.15
Windfall benefit: Actual PIA less target PIA	0	56.30	84.45

[1] PIA's are computed using the assumption that each benefit calculation procedure was fully effective and using the 1980 benefit formula. Earnings credits were divided by 12 as if they had been average indexed monthly earnings.

Source: Schieber, Sylvester J. Social Security: Perspectives on Preserving the System. EBRI, 1982. Table VII-3.

The difference between what the noncovered employee would have received if his earnings had been averaged over the period he was covered under social security and what he actually receives because it is averaged over the entire 35 years is a benefit "windfall." This windfall results only because the individual is able to have substantial earnings which are not taxed for social security and which do not enter into his social security earnings record. Because of these years of sheltered earnings, the social security system mistakes him for an individual with long periods of unemployment or an individual with low career earnings. This results in an unfair advantage to the worker who spends a substantial portion of his career in noncovered employment.

(C) NATIONAL COMMISSION RECOMMENDATIONS

(1) Coverage of Federal Employees

Extend mandatory coverage to new Federal employees hired on or after January 1, 1984. Under the provisions of S. 1 (a bill introduced in the Senate to implement the recommendations of the National Commission), mandatory coverage would be extended at the same time to all current Members of Congress, the President, and the Vice President. Close to 100,000 new Federal employees each year would be covered under social security and a supplemental employer-financed pension plan. New employees would contribute 5.4 percent of their pay under $37,500 to OASDI, instead of the 7 percent of total pay contributed by current employees to CSRS. The Government, as employer, would match this amount. The 1.3 percent HI tax contributed by current employees and matched by the Government would be continued for new hires. An unspecified supplemental pension plan would also be established for new employees, largely financed by the employer. The new retirement system would most likely provide benefits approximating those available to current employees under the CSRS, with some improvement in benefit portability, and a likely increase in the age of retirement.

Revenues (1983-89): $9.3 billion
(75 years): 0.29 percent of taxable payroll

(2) Coverage of State and Local Employees

Close the option for State and local governments to terminate coverage under social security, effective for all State and local governments which have not completely terminated coverage as of the effective date of the legislation. 635 State and local government entities with termination notices pending over the next 2 years would be barred from leaving the system. This would maintain coverage for over 200,000 employees who otherwise would have been taken out of the system. In addition, currently participating State and local government entities employing over 7.5 million workers would be prevented from terminating social security coverage for their employees. This proposal would raise additional revenues because current social security forecasts include the assumption that terminations will continue throughout the decade.

Revenues (1983-89): $3.2 billion
(75 years): 0.08 of taxable payroll

(3) Coverage of Nonprofit Employees

Extend mandatory social security coverage to all employees of nonprofit organizations, beginning January 1, 1984. Approximately 750,000 employees of nonprofit organizations not now participating would be covered under social security and have full FICA taxes withheld, beginning in 1984. The option for nonprofit organizations to elect coverage or terminate coverage would be closed, and all nonprofit organizations which have withdrawn from the system would be brought back.

Revenues (1983-89): $12.5 billion
(75 years): 0.10 percent of taxable payroll

(4) Elimination of Windfall Benefits

Reduce the social security benefit for retired and disabled workers who become eligible for a pension based on noncovered employment after 1983. Federal, State and local government employees who will receive pension income from jobs not covered under social security, and will also receive social security benefits based on their own earnings record, will have their social security benefits reduced. The proposal included in S. 1 would recompute their social security benefits by providing them 32 percent (instead of 90 percent) of the first $254 of AIME. In no case, however, would the social security benefit be reduced by more than 50 percent of the worker's pension. Savings from this proposal would be minimal in the first 7 years, and in the long run. It would, however, eliminate a current inequity which favors noncovered workers.

Savings (1983-89): $0.2 billion
(75 years): 0.02 percent of taxable payroll

2. PAYROLL TAXES

(A) BACKGROUND

The collection of payroll taxes to finance the old-age insurance program began, under the provisions of the Federal Insurance Contributions Act (FICA), in 1937. To minimize the shock, initial tax rates were low and were scheduled to increase gradually. The tax in that first year was 1 percent of the first $3,000 of a worker's earnings, with a matching tax on the employer. The Social Security Act of 1935 included a schedule of increases in the tax rate of 0.5 percent on both parties every 3 years, leading to a maximum rate of 3 percent for each by 1949. However, during World War II, the scheduled increases were deferred, and it was not until 1950 that the tax rate was finally increased to 1.5 percent. The old-age and surviviors insurance tax rate did not reach the originally scheduled maximum of 3 percent until 1963.

TABLE 5.—OASI TAX RATES ORIGINALLY PROPOSED AND ACTUAL, 1937 TO 1980

Year	Rate scheduled in 1937 act	Actual rate
1937	1.0	1.0
1940	1.5	1.0
1945	2.5	1.0
1950	3.0	1.5
1955	3.0	2.0
1960	3.0	2.75
1965	3.0	3.375
1970	3.0	3.65
1975	3.0	4.375
1980	3.0	4.52

In 1951, the earnings base was increased for the first time to $3,600, and a tax rate of 2.25 percent was assessed on the self-employed, under the provisions of the Self-Employment Contributions Act (SECA), as they entered the system. Since then, the tax rate and earnings base have increased to keep pace with improvements in the program. Disability insurance was added in the 1956 amendments, and a DI tax rate of 0.25 percent on employer and employee each went into effect in 1957. Hospital insurance (medicare—part A) was added in the 1965 amendments and an HI tax rate of 0.25 percent on each went into effect in 1966. The 1965 amendments also set the OASDI and HI tax rate to increase to an ultimate rate of 5.65 percent on both employer and employee by 1987.

The 1977 amendments incorporated the most recent increase in the tax rates and earnings base. Tax rates were set to rise by 1990 to an ultimate rate on employer and employee of 5.1 percent for OASI, 1.1 percent for DI, and 1.45 percent for HI. The earnings base was also indexed to the increase in average covered earnings in order to maintain a constant relationship to wages. The first automatic increase went into effect in 1982, raising the amount of taxable earnings to $32,400.

As of 1983, the FICA tax rate on employer and employee is 6.7 percent on the first $35,700 of covered earnings. The SECA tax rate on the self-employed is 9.35 percent.

TABLE 6.—MAXIMUM CONTRIBUTION AND CUMULATIVE SOCIAL SECURITY EMPLOYMENT TAXES PAID BY EMPLOYEE

Year	Tax rate percent	Maximum wages taxable	Maximum annual tax contribution	Taxes paid cumulative total
1937	1.0	$3,000	$30.00	$30.00
1938	1.0	3,000	30.00	60.00
1939	1.0	3,000	30.00	90.00
1940	1.0	3,000	30.00	120.00
1941	1.0	3,000	30.00	150.00
1942	1.0	3,000	30.00	180.00
1943	1.0	3,000	30.00	210.00
1944	1.0	3,000	30.00	240.00
1945	1.0	3,000	30.00	270.00
1946	1.0	3,000	30.00	300.00
1947	1.0	3,000	30.00	330.00
1948	1.0	3,000	30.00	360.00
1949	1.0	3,000	30.00	390.00
1950	1.5	3,000	45.00	435.00
1951	1.5	3,600	54.00	489.00
1952	1.5	3,600	54.00	543.00
1953	1.5	3,600	54.00	597.00
1954	2.0	3,600	72.00	669.00
1955	2.0	4,200	84.00	753.00
1956	2.0	4,200	84.00	837.00
1957	2.25	4,200	94.50	931.50
1958	2.25	4,200	94.50	1,026.00
1959	2.5	4,800	120.00	1,146.00
1960	3.0	4,800	144.00	1,290.00
1961	3.0	4,800	144.00	1,434.00
1962	3.125	4,800	150.00	1,584.00
1963	3.625	4,800	174.00	1,758.00
1964	3.625	4,800	174.00	1,932.00
1965	3.625	4,800	174.00	2,106.00
1966	4.2	6,600	277.20	2,383.20
1967	4.4	6,600	290.40	2,673.60
1968	4.4	7,800	343.20	3,016.80
1969	4.8	7,800	374.40	3,391.20
1970	4.8	7,800	374.40	3,765.60
1971	5.2	7,800	405.60	4,171.20
1972	5.2	9,000	468.00	4,639.20
1973	5.85	10,800	631.80	5,271.00
1974	5.85	13,200	772.20	6,043.20
1975	5.85	14,100	824.85	6,868.05
1976	5.85	15,300	895.05	7,763.10
1977	5.85	16,500	965.25	8,728.35
1978	6.05	17,700	1,070.85	9,799.20
1979	6.13	22,900	1,403.77	11,202.97
1980	6.13	25,900	1,587.67	12,790.64
1981	6.55	29,700	1,975.05	14,765.69
1982	6.70	32,400	2,170.80	16,936.49
1983	6.70	35,700	2,391.90	19,328.39

(B) ISSUES

Three separate issues were raised by the Commission with regard to providing revenues to social security: (1) Setting tax rates to support an adequate level of benefits in the near term as well as over the long run; (2) establishing equitable tax treatment for wage and salary income and for earnings from self-employment; and (3) maintaining a stable social security tax base.

(1) Tax Rates

The OASDI tax rate is scheduled to rise under current law from 5.4 to 5.65 percent in 1985, and to 6.2 percent in 1990. The HI tax rate is also scheduled to rise from 1.3 to 1.35 percent in 1985, and to 1.45 percent in 1986. To increase revenues to social security in the immediate future, there have been a variety of proposals designed to accelerate already scheduled increases in the payroll tax rate. There has been relatively little interest in increasing payroll tax rates in the near future beyond those already scheduled in the law. One suggested solution to the long-run financing problem has been to increase ultimate tax rates at some distant date beyond the rates already scheduled.

Short-term adjustments in the tax rate are aimed at raising revenue quickly to eliminate the short-term financing shortfall. Tax increases are viewed as a way of distributing the burden of financing social security on the broadest possible base—the 116 million covered workers. Tax increases have also been generally viewed as placing a burden on the group that has the greatest capacity to make up any losses through work. Opponents of tax increases have pointed to the dampening effects these tax increases could have on the economy. Since the payroll tax is a tax on earnings, and is paid by the employer, it is popularly held that an increase in the payroll tax rate will raise the cost of labor. Opponents believe the increase in labor costs will force businesses to lay off workers, increasing unemployment, and lessening the prospects for recovery. The challenge in accelerating tax rates in the short run is to define a reasonable share of the financing burden to be borne by workers and to time the tax increases so as to avoid interfering with economic recovery.

The question of whether to raise ultimate social security tax rates to solve the long-term financing problem is more a philosophical issue. Those who support tax increases in the long run generally hold that the projected costs of the OASDI program in the worst demographic years are affordable in light of the importance of the social security program. Cost projections suggest that, in the worst years, the current program, under intermediate assumptions, should cost no more than 17 percent of payroll (compared to a combined tax rate of 12.4 percent already scheduled for 1990). Proponents of a tax increase argue that with lower childrearing costs due to projected low fertility rates in the future, workers will have freed up resources which can be easily transferred to programs to support the elderly. In addition, combined payroll tax rates of 17 percent would be similar to current payroll tax rates used to finance social security programs in Western Europe. Opponents of an increase in the ultimate tax rate generally oppose any proposal which would underwrite the cost of social security with benefit levels fixed into the indefinite future. These opponents frequently express the view that the public system of income transfers should be limited to permit greater growth in pension systems, increased savings, and capital accumulation.

(2) The Self-Employment Tax

Under the Self-Employment Contributions Act (SECA), individuals pay a tax rate of 9.35 percent on self-employment income up to the taxable earnings ceiling ($35,700 in 1983). Those who have earnings from both wages or salaries and self-employment have FICA taxes withheld first on all wage and salary income under the ceiling, and then pay SECA taxes on self-employment earnings until the sum of wages, salary, and self-employment income reaches the ceiling. SECA tax payments are included by the taxpayer in quarterly estimated tax payments, and are adjusted on the 1040 tax form filed by April 15.

When the self-employed were first covered under social security in the 1950 amendments, a judgment was made to set the tax rate for them at 1.5 times the FICA tax rate on the employee. Ostensibly this differential reflects the fact that the employer can deduct his share of the tax payment as a business expense, while the self-employed cannot deduct any of the social security tax payment. Over time, the SECA OASDI tax rate has been kept at roughly 75 percent of the combined employer-employee tax rate. However, when the HI tax was added in the 1965 amendments, the HI rate for the self-employed was set equal to the rate for the employee.

In recent years, the inequity of the lower tax rate on the self-employed has been questioned. The self-employed receive the same benefit as the employed but pay less in tax contributions than the employer-employee. Those in favor of changing this situation argue that not allowing the self-employed the same tax deduction that the employer receives, and taxing him for social security at a lower rate, deprives the social security trust funds of revenues—to the advantage of the general fund. In effect, this situation results in an unintentional subsidy of the general fund by social security.

Because the self-employed actually pay their income and social security taxes in a lump sum through quarterly estimated returns, it is conceivable that this situation can be rectified with a minimal amount of impact on the self-employed. Increasing the self-employment tax rate with an offsetting tax deduction will result in parity between the self-employed and the employer-employee. However, the value of the tax deduction, hence the net tax burden, will depend on the marginal tax bracket in which the individual falls. Conceivably the low-income self-employed would have the greatest relative tax burden, while the high-income would have no increase in tax burden. An alternative suggestion is to provide the self-employed with a tax credit equal to one-fourth of the full social security tax. This tax credit would have the effect of holding the self-employed harmless for any increase in SECA taxes that would result from this proposal. However, the use of a tax credit for the self-employed would establish a precedent of providing tax credits directly tied to the social security tax, leading to pressure for a more substantial tax credit for the employee's share of the FICA tax.

(3) The FICA Tax Base

Erosion in the FICA tax base due to the growth in nontaxable fringe benefits is a problem which was highlighted during the deliberations of the National Commission, and which could have serious long-run consequences for the financial stability of the social security system. Intermediate assumptions for social security financing assume in the long run that the proportion of compensation paid as nontaxable fringe benefits will continue to grow at a rate of 0.4 percent per year—the average annual rate of growth experienced over the last 30 years.

In 1950, fringes accounted for only 5 percent of total compensation, and FICA taxes were levied on 95 percent of compensation. By 1980, fringe benefits had grown to account for 16 percent of compensation, leaving only 84 percent of compensation to be taxed for social security. Continuation of this rate of growth in fringe benefits will result, by 2056, in fringes accounting for 38 percent of compensation, leaving only 62 percent to be taxed for social security.

If this projected growth in nontaxable fringe benefits occurs, it will result in a dramatic reduction in the relative value of the social security tax base. Over time, the ratio of total compensation to GNP is projected to be relatively stable. It is only the ratio of cash wages to compensation which is projected to decline steadily. In other words, the social security actuaries predict that over time less and less of the payments employers make to workers will be taxable for social security, and social security will benefit less and less from the growth in the economy. The net effect is to cause the relative value of revenues under intermediate assumptions to decline from a high of 5.2 percent of GNP to less than 4 percent of GNP by 2056. This becomes a significant problem because the benefits paid by social security are fully indexed to the growth in the economy. The loss of revenues from this shrinkage is equivalent to 90 percent of the current long-run deficit, or 1.58 percent of taxable payroll.

To an extent this erosion in the FICA tax base results from an expansion in employee benefits such as private pensions and health insurance which supplement social security. However, to an increasing degree these employee benefits are direct in-kind services provided in lieu of cash wages (such as employer-provided group legal services, or employer-paid parking). Employer payments for nontaxable fringe benefits reduce the proportion of compensation the employer is paying as cash wages. For those employees at or below the taxable earnings ceiling, this provision of in-kind benefits represents an often inadvertent tradeoff of future social security benefits for current consumption.

In recent years there have been increasing cases of fringe benefit options which give employees themselves the choice of receiving taxable cash wages or nontaxable pension benefits or in-kind services. In the past, the general rule has been that elective employee payments to pension plans or other employee benefits are subject to both income and social security taxes. In other words these payments are made from after-tax income. Even contributions to individual retirement accounts (IRA's) and tax sheltered annuities (TSA's), which are not taxed for income tax purposes, are subject to social security taxes. Recently, however, a number of arrangements have come to light which provide employees the option of receiving taxable cash wages or nontaxable fringes. Because these payments are made out of before-tax income, neither social security nor income taxes are applied when the payments are made. Income taxes, however, are eventually collected on any pension contributions when the benefits are received, but social security taxes are never collected. Thus, in effect, the employee can opt out of a portion of his FICA tax payments and future social security benefits, in order to increase his private pension accumulation or disposable income.

The most obvious case of tax-sheltered elective contributions has occurred in the case of salary reduction (401(k)) plans. Section 401(k) of the Internal Revenue Code was enacted as part of the Revenue Act of 1978 in an effort to clarify the tax treatment of employer-provided profit-sharing bonuses. These are bonuses in excess of the employee's regular compensation contributed by the employer, on behalf of the employee, to a profit-sharing plan. The 1978 Revenue Act, in exempting these bonuses from taxation, extended this tax exemption to arrangements made between the employee and employer to reduce current salary in order to make contributions to a deferred compensation plan. Because the statute was unclear, there was little activity until the IRS issued proposed regulations in 1981. Since then 401(k) plans have become popular, but many employers have held off setting up a plan until the final regulations are issued.

401(k) salary reduction plans may provide employees the option of reducing up to 15 percent of their cash compensation to defer it in a pension or profit-sharing plan. This is a before-tax, fully voluntary employee contribution to a pension plan. The only constraint on the amount that can be sheltered within these limits is that the plan must meet an antidiscrimination test which specifies the proportion of the plan's assets which must be contributed by the firm's low-income employees.

While the 401(k) plan is a clear instance of an inappropriate shelter from FICA taxes, there are other cases which are emerging as well. It is likely that the issue of what is and is not included in the FICA tax base will receive increasing attention in the future.

(C) NATIONAL COMMISSION RECOMMENDATIONS

(1) Acceleration of FICA Tax Increases

The 1985 OASDI tax rate of 5.7 percent would go into effect in 1984—an increase of 0.3 percent on employers and employees. The employee portion of the increase would be fully offset with an income tax credit. Under the provisions of S. 1, the tax credit would be applied during withholding to prevent any reduction in take-home pay for the employee. The 1985–87 OASDI tax rate would remain, as under current law, at 5.7 percent. A portion of the OASDI tax rate increase scheduled for 1990 would go into effect in 1988. The 1988–89 OASDI tax rate would rise by 0.36 percent on each to 6.06 percent. The 1990 OASDI tax rate would remain, as under current law, at 6.2 percent.

TABLE 7.—SOCIAL SECURITY TAX RATES, EMPLOYERS AND EMPLOYEES, EACH

[In percent]

Calendar years	OASDI		HI, current law	OASDHI	
	Current law	Proposed change		Current law	Proposed change
1983	5.40	5.40	1.30	6.70	6.70
1984	5.40	5.70	1.30	6.70	7.00
1985	5.70	5.70	1.35	7.05	7.05
1986-87	5.70	5.70	1.45	7.15	7.15
1988-89	5.70	6.06	1.45	7.15	7.51
1990	6.20	6.20	1.45	7.65	7.65

The net effect of the FICA tax increase and the tax credit would be to raise the employer's tax rate by 0.3 percent during 1984, and the employee's and employer's tax rate by 0.36 percent in 1988 and 1989. In 1984, taking into account the deductibility of FICA taxes, the net added cost for employers would average 90 cents per week per job for about 98 million covered jobs. In 1988 and 1989, about 98 million wage and salary employees would pay an average added $2 per week in FICA taxes. Employers would have a net added cost of about $1.50 per job per week.

Revenues (1983-89): $39.4 billion
(75 years): 0.03 percent of taxable payroll

(2) Self-Employment Tax Increases

The self-employment (SECA) OASDI tax rate would be equal to the combined employer-employee tax rate, beginning in 1984. The HI SECA tax rate would remain as it is under current law. Also beginning in 1984, individuals would be allowed to deduct 50 percent of the OASDI portion of any SECA taxes from their self-employment income for income tax purposes.

TABLE 8.—SOCIAL SECURITY TAX RATES FOR THE SELF-EMPLOYED

[In percent]

Calendar years	OASDI		HI, current law	OASDHI	
	Current law	Proposed law		Current law	proposed law
1983	8.05	8.05	1.30	9.35	9.35
1984	8.05	11.40	1.30	9.35	12.70
1985	8.55	11.40	1.35	9.90	12.75
1986-87	8.55	11.40	1.45	10.00	12.85
1988-89	8.55	12.12	1.45	10.00	13.57
1990	9.30	12.40	1.45	10.75	13.85

For 8.8 million taxpayers with self-employment income, the total SECA tax rate for 1984 would be 3.35 percent higher than the 1983 rate. For the self-employed in a 50-percent tax bracket there would be no net added tax burden, while for those in a 25-percent tax bracket the SECA tax burden would increase by roughly 20 percent, net of income taxes. The average person paying self-employment taxes would pay about $275 more in taxes in 1984.

Revenues (1983-89): $18.5 billion
(75 years): 0.19 percent of taxable payroll

(3) Taxation of Salary Reduction (401(k)) Plans

Salary reductions made after December 31, 1983, under salary reduction plans qualifying under section 401(k) of the Internal Revenue Code would be included in taxable wages for purposes of collecting FICA taxes. Because few of these plans have been put into effect, this provision would produce little revenue. It would, however, prevent an anticipated loss of revenues in the future.

Revenues (1983–89): negligible
(75 years): negligible

(4) Future Tax Increases

Five Commission members recommended eliminating one-third of the long-run deficit by providing for a tax increase of 0.46 percent on employers and employees each in the year 2010. The employee contribution would be offset by a refundable income tax credit.

Revenues (1983–89): none
(75 years): 0.58 percent of taxable payroll

3. BENEFITS

(A) BACKGROUND

While the architects of the original program foresaw a more complete form of social insurance, the Federal old-age insurance (OAI) program established in the Social Security Act of 1935 was only to pay workers retirement annuities directly related to their average career earnings.

This simple retirement program however, was never put into effect. A year before the first benefits were ever paid, the 1939 amendments added survivors insurance and dependents' benefits and changed the benefit formula to provide more adequate benefits to low-income and short-term workers. The change in benefits introduced into social security the principle of greater help for greater presumed need.

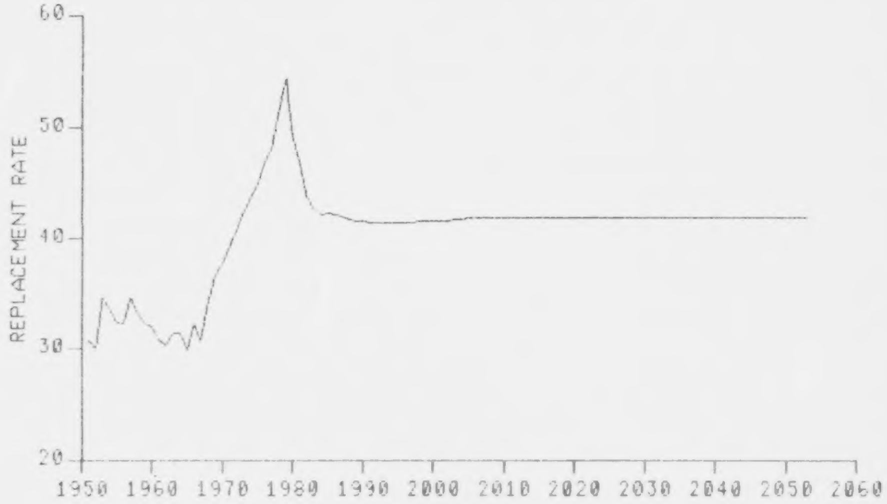
Over the years, the social security program has been modified still further to improve the quality of income protection for workers. In 1956, the disability insurance (DI) program was added, providing cash benefits to severely disabled workers and to adult children of retired workers disabled before age 18. Dependents' benefits were added to this program in 1958. In 1965, Congress established medicare with two parts: Basic compulsory program for hospital insurance (HI) funded by a separate payroll tax; and a voluntary supplementary medical insurance (SMI) plan to provide coverage for physician expenses, funded jointly through monthly premiums paid by the beneficiary and Federal general revenue appropriations. Medicare was expanded in 1972 by extending coverage to those under 65 entitled to disability cash benefits for 24 consecutive months, and to certain vicitims of chronic renal disease.

Congress has also sought to maintain the adequacy of social security benefits over the lifetime of beneficiaries by granting periodic increases to keep up with inflation. Prior to 1975, these cost-of-living adjustments were made on an ad hoc basis, frequently increasing benefits in excess of inflation. Between 1968 and 1971, the Congress enacted ad hoc across-the-board increases of 43 percent, while consumer prices rose by only 27 percent during this period. The 1972 amendments increased benefits across the board by another 20 percent. At the same time, Congress enacted an automatic annual adjustment for increases in the Consumer Price Index (CPI) of 3 percent or more, effective in 1975, to eliminate the need for ad hoc increases. It was widely believed at the time that the automatic indexing of benefits would result in lower benefit increases than those granted on an ad hoc basis. However, rapid price increases caused benefits to rise by another 40 percent between 1978 and 1981.

1972 also saw a change in the method of computing workers' average earnings and the basic benefit amount so that initial benefits would rise with the standard of living over time. A technical error in the indexing method led Congress to enact another change in the computation formula in 1977 which had the effect of fixing the relationship between initial benefits and earnings over time. At the same time, long-run relative benefit levels were set below the levels which would have resulted from earlier legislation. As a result of the 1977 amendments, social security benefits over the long run are expected to replace about 42 percent of the average worker's preretirement earnings compared to replacement rates for the average worker which were projected under the 1975 amendments to reach 56 percent. As a result of the revised indexing of initial benefits, this 42 percent replacement rate is expected to remain stable in the future.

CHART 7

SOCIAL SECURITY:
AVERAGE REPLACEMENT RATES, ACTUAL AND ESTIMATED
1953-2055



SOURCE: Social Security Administration, "Historical Replacement for Steady Workers" and "Projection of Replacement Rates for Steady Workers" June, 1981

(B) ISSUES

Pressure to improve the financial condition of social security has brought a reexamination of social security benefit levels and the automatic benefit indexing provisions. For the short run, attention has focused on the automatic cost-of-living adjustments (COLA). In recent years, high rates of inflation, coupled with slow economic growth have caused indexed social security benefits to rise more rapidly than the wages paid to workers. This system has protected the elderly, at least for the social security portion of their benefits, from high rates of inflation while workers as a group have experienced a decline in their standard of living. However, it has given rise to the argument that the elderly have been overcompensated for inflation, and that full indexing of retirement benefits in a time of slow economic growth is unfair and unaffordable.

Aside from this review of the COLA, there has been little interest in making immediate changes in basic benefit levels, either for those already retired or for those nearing retirement. The exception to this rule has been the proposal to include social security benefits in taxable income. Taxing benefits does not change benefit levels, but it does have the effect of recouping income from the more affluent of the social security beneficiaries. As a result, it has effects which are similar to a benefit reduction for higher income current and future beneficiaries.

For the long run, the issue is whether the Nation can afford to finance the same relative level of social security benefits 50 years from now when there are expected to be proportionately fewer workers in the population. Of course, the answer to this question depends largely upon how much more productive these workers are, and whether social security will be able to tax a fixed share of their productivity gains over time. Those who contend that relative benefit levels will have to be reduced generally support one of two approaches for lowering future benefit levels: Raising the retirement age, or adjusting the benefit formula to reduce benefits by a fixed percentage across the board.

Emphasis over the past few years on financing issues has diverted attention from what are generally known as women's equity issues in social security. These issues remain, though, on the social security reform agenda. Concerns about women and social security are significant because most of the elderly poor are women, and their poverty is in large part attributable to the inability of worker-oriented retirement income systems to provide them adequate income. Some of the barriers to an adequate income result from features of social security designed to respond to life patterns now less common in the society. Reforms to make social security better suited to contemporary career and marital patterns are intended ultimately to improve the overall adequacy of social security benefits, and lower poverty rates among the elderly.

(1) Cost-of-Living Adjustments

In recent years, automatic price indexing of post retirement benefits has been increasingly viewed as a source of financial instability in the program. Automatic indexing of any feature of the system takes the decision about that feature out of the hands of Congress, and creates a risk that actual conditions, unforeseen at the time indexing was established, can disrupt the financing of the system. Price indexing of postretirement benefits is thought to be particularly risky because the benefit outlays are the only element in the system tied to prices—the revenues to the system and all other indexing provisions are tied to wages. Whenever wage increases lag behind price increases there is a potential for benefit outlays to outstrip the system's revenues. Much of the concern is a reflection on the economic conditions of the past 5 years, and an earnest desire to prevent a repeat of the rapid attrition of the social security trust funds which occurred at that time. Those who support automatic price indexing point to the relationship between wages and prices over the previous 30 years as being more characteristic of a healthy economy. In this period, when wages grew more rapidly than inflation, price indexing of retirement benefits most likely would have restrained benefit growth.

In the short term, changes in the COLA are seen as a way of reducing program outgo without reducing current benefit levels. COLA adjustments have the advantage of distributing short-term savings across the broadest group possible—all 36 million beneficiaries—thereby affecting each minimally. COLA adjustments can go into effect quickly and create substantial savings in a short period. They have the disadvantage of reducing the real incomes of poor beneficiaries and rich beneficiaries alike, and therefore bringing added numbers of the elderly below the poverty level.

There are generally three kinds of COLA adjustments proposed: Delays in payment, partial or reduced COLA's, and changes in the index used in computing the COLA.

Delays in the payment date, such as a 3- or 6-month delay, are generally seen as the mildest and least harmful COLA adjustments. This is because a delay does not affect the amount of COLA that is eventually paid and, therefore, does not affect the benefit amount used as a base in computing the next COLA. A COLA delay involves a permanent rescheduling of the payment date and may be accompanied by a corresponding shift in the period used in calculating the CPI increase as well. Whether a shift in the computation period increases or decreases the COLA paid depends on the pattern of inflation.

Payments of partial or reduced COLA's are generally proposed for use over a limited period of time (2 or 3 years). Partial COLA's have more serious consequences for benefits, as a rule, since they result in monthly benefit amounts which are reduced in real terms, and these reductions are compounded in the future. One partial COLA payment lowers the benefit amount used in computing the next COLA payment, and this compounding continues over the life of the beneficiary.

Changes in the index used in computing the COLA are generally the most unpredictable means for adjusting benefit levels. For example the use of a wage-indexed COLA can reduce benefit increases in periods when wage growth lags behind price increases; but in a healthy economy, with wages growing more rapidly than prices, wage indexing would cause benefits to rise at a faster rate. Even the use of a "wage minus *x*" COLA, where the COLA is based on something less than the full wage increase, could result in an increase in real benefits after retirement, given favorable economic circumstances. Other proposals to change the method of computing the CPI could have the effect of increasing the growth in benefits if the relative rate of inflation for various commodities should change.

Recently, with the 1983 COLA increase projected to drop below 4 percent, there has been a loss of interest in using major adjustments in the COLA to produce short-term savings. Low inflation rates and high unemployment shift the focus of concern from benefit growth to revenue loss due to slow wage increases and a decline in the covered work force.

Price indexing of benefits also introduces an element of uncertainty in the long-run financing of the program. Intermediate forecasts of the social security actuaries are based on the assumption that wage growth will exceed inflation by an average of 1.5 percent over the next 75 years. However if wages grow only 1 percent more rapidly than prices, the relative benefit increases will raise social security's 75-year costs by 1 percent of the taxable payroll. Proposals to adjust COLA's over the long run have been aimed at reducing the sensitivity of the financing to unanticipated changes in the relationship between wages and prices. Proposals to stabilize the program have included changing to a wage-based COLA in order to place program payments and revenues on the same escalator, or using the lesser of wage increases or price increases in determining the COLA in order to assure that a decline in real wages does not cause a reoccurrence of the short-term financing problem.

(2) Tax Treatment of Benefits

Proposals have been advanced over the years to change the income tax treatment of social security benefits. Social security benefits are currently tax exempt. They differ in this regard from other forms of retirement income such as income from pensions or interest and dividends. Benefits from a contributory employer-sponsored pension plan, for example, are counted in taxable income, once the worker's contribution has been paid back. Noncontributory plans benefits are fully taxed.

The tax exemption of social security benefits does not derive from statute, but rather from a 1941 ruling of the Bureau of Internal Revenue that social security benefits were intended to be a form of gift or gratuity. Social security benefits are therefore treated in the same fashion as other Government income transfers, a treatment that seems to conflict with the "earnings-related" design of the program.

Two previous commissions—the 1979 Social Security Advisory Council and the President's Commission on Pension Policy—recommended that social security benefits be included in taxable income. The usual proposal has been to include only half of the social security benefit, since the other half of it is theoretically based on employee contributions which have already been taxed. In addition, some proposals have suggested taxing only the benefits of those who have substantial income from other sources. Most proposals would return revenues from a tax on benefits to social security.

Proponents of taxing benefits explain that analogous tax treatment of social security, pensions, and other forms of earnings-related retirement income would result. In addition, some have suggested that taxing benefits would help reduce the current disparity between the treatment of earned and unearned income. Social security benefits are currently reduced by 50 cents for every dollar of earned income over $6,600 a year (for those over 65). Taxing benefits would create a similar reduction of sorts for unearned income.

Previous proposals to tax benefits have usually suggested introducing the change in the distant future. Recently, however, taxing benefits has been seen as an alternative type of benefit reduction which would protect those with the lowest incomes. Support for this proposal has also come from those who believe that the elderly as a group are now as well off financially as the young, and no longer need special tax treatment. This line of thought fits with a traditional concern held by many that high monthly benefits are paid to some obviously wealthy individuals who do not need them. A final argument in support of taxing benefits of current retirees is that by participating in a maturing social insurance system, they receive benefits well in excess of amounts they contributed. To the extent that the portion of benefits not related to their contributions is not needed to maintain an adequate retirement income, proponents argue, it should be taxed.

Opponents of proposals to tax benefits have argued that, in the short term imposing the tax amounts to a substantial benefit cut for current retirees. Current retirees usually cannot return to work to increase other income to compensate. In addition, taxing benefits is seen as means testing the program and compromising the sense of an earned right to benefits. Finally, opponents suggest that taxing benefits will create a disincentive to save for retirement.

The proposal to transfer the tax revenues from this proposal to the social security trust funds is viewed by opponents as a thinly veiled form of general revenue financing for social security, which differs from the way we treat revenues from taxes on pensions and other forms of retirement income.

(3) Long-Run Benefit Changes

There are two types of benefit modifications being seriously proposed to eliminate the long-run deficit—raising the retirement age, and revising the benefit formula to reduce benefits by a fixed percent across the board.

(a) Raising the retirement age

Social security pays a full retirement benefit (100 percent of the primary insurance amount (PIA)) at age 65. Individuals become entitled to retirement benefits at age 62, but benefits paid prior to age 65 are "actuarially reduced" (adjusted to assure that the total amount of benefits received over a lifetime remain the same despite early retirement). A worker retiring at age 62 receives 80 percent of the full benefit amount. After age 65, workers who do not retire receive a delayed retirement credit equal to 3 percent per year. This amount, however, is not a full actuarial increase—so that an individual delaying retirement after age 65 actually receives less in lifetime benefits as a result.

If older people live longer in the future, retirement system costs will rise because beneficiaries will be drawing benefits for a longer period. Raising the statutory age for payment of full social security benefits is seen as a way to protect the financing of the system from the effects of changes in life expectancy. The effect of an increase in the retirement age is to reduce the proportion of the full benefit paid at any particular age of retirement. Some people may choose to work longer so that their monthly benefits will not be reduced; but for everyone, no matter how long they work, raising the retirement age will reduce lifetime income from social security.

Raising the retirement age actually changes the proportion of the PIA paid at a given year of retirement and does not affect the PIA itself in any way. As a result, it affects only retirement benefits and does not affect either survivors, or disability benefits. By contrast, proposals to adjust the benefit formula in order to reduce replacement rates actually change the PIA and therefore reduce all benefits.

Proponents of raising the retirement age point out that it is justified because Americans are on average living longer. An increase in the retirement age to 68 would result in a length of retirement at least equivalent to that envisioned when the age of retirement was set at 65 in 1935. In addition, an increase 20 years from now in the retirement age may well conform to changes in preferences for work in later years. Demographers project the development of labor supply shortages toward the end of this century which will lead to an increase in the demand for older workers. Today's younger work force may simultaneously want to work longer than today's generation of retirees. On average, they entered the labor force later, have developed higher levels of education and skills, and have worked in less physically demanding occupations than their elders. Current preferences for early retirement may, therefore, be naturally reversed in the future.

Opponents of an increase in the retirement age emphasize that there is a conflict between this policy and the current trend toward early retirement. It can well be contended that in the future, as workers realize higher real incomes and improved retirement incomes, they will choose to work less and not more. In addition, while some might choose to work longer, not all will be able to. There are many categories of workers—primarily those in stressful or hazardous occupations—who will need to maintain the option to retire early. There will continue to be workers with poor health, low skill levels, and inconsistent work histories who will be unable to work or will be unable to find employment when they are older. For those who can work longer, primarily the white-collar and professional workers, raising the retirement age will not affect their monthly benefit amounts. But for the worker who cannot work longer, this proposal will substantially reduce the amount of monthly benefits unless adequate provision is made elsewhere (such as in the disability program) for early retirement for age or health related reasons.

(b) Revising the benefit formula

Besides raising the retirement age, other major proposals to curb the growth of benefits include decreasing the replacement rates by altering the formula for calculating benefits. Social security bases benefits on each worker's average indexed monthly earnings (AIME). This is the total amount of covered earnings over 35 years, with earnings in each year adjusted to current wage levels, divided by the total number of months—to get a monthly amount. A benefit formula is then used to calculate a worker's basic benefit—the primary insurance amount (PIA). The benefit formula gives the worker a benefit which (for a worker attaining 65 in 1983) is equal to the sum of 90 percent of the first $254 of AIME, plus 32 percent of AIME between $254 and $1,528, plus 15 percent of AIME in excess of $1,528.

The factors in the formula (90, 32, and 15 percent) are fixed under current law. The dollar amounts ($254 and $1,528), or "bend points" as they are called, are indexed to wages. Proposals to reduce replacement rates in the future have suggested either "freezing" or partially indexing the bend points for a period of years, or changing the percentage factors in the formula. In either case, replacement rates could be reduced in a fairly predictable fashion. However, slowing the increase in the bend points has the disadvantage of reducing benefits more for those whose AIME is just above one of the bend points. Adjusting the formula results in a more even and controlled effect on benefit levels.

Proponents of reducing the replacement rate usually believe that high social security benefits have discouraged people from deferring consumption and saving for retirement during their working years. Were social security benefits reduced, there would not only be greater incentive to save, but also greater incentive to develop adequate pension coverage and benefits.

In addition, proponents often base the need for reductions in replacement rates on the argument that ad hoc increases in the late 1960's and early 1970's were too generous and that these, coupled with the effects of the "double-indexing" increases of the late 1970's, have led to an unaffordable level of benefits. Although a portion of these increases were recouped in the 1977 amendments when average ultimate replacement rates were set at 42 percent, some argue that long-run replacement rates are still about 10 percent higher than they were prior to 1972. Proponents of reducing the replacement rate may also point to the equity of this approach—it tends to affect benefits of all workers, survivors, and dependents relatively equally and does not necessarily alter the progressive benefit structure of social security.

Opponents of reducing replacement rates usually argue that social insurance programs in a normal economy can provide better or equivalent benefits with less risk to the average worker than can pensions or investments. In addition, social security can provide an adequate replacement rate to the lowest wage workers who are unlikely to have pension benefits or savings. Since social security can provide a secure low-risk foundation for building a retirement income portfolio for the average worker, and it can provide an adequate retirement income for the low-wage worker, public policy should be directed toward increasing public confidence and support for the system and not toward reducing the adequacy of future benefits.

(4) Women's Benefits

Retirement benefits adequacy for women is a most pressing concern because a very high proportion of the elderly poor are widowed, divorced, or never-married women. In 1976, older women living alone accounted for three out of four aged units with subpoverty income.

The problems of providing adequate benefits to women have existed, in part, because retirement income systems link benefits to an individual's earnings and work history. Working women frequently have interrupted work histories due to childbearing responsibilities. Women have also generally had lower career earnings than men. As a result, a large proportion of women either fail to qualify or qualify for low benefits based on their own earnings.

Social security has addressed the problem of providing income to homemakers by paying dependent spouses benefits—based on the earnings record of the principal earner—and by paying survivors benefits to young widows with children and widows over 60. Employee pensions, however, do not pay spouses benefits and generally provide inadequate protection for survivors.

Despite the comparatively better protection afforded women under social security than under private plans, there are nevertheless inadequacies in benefits for women which have been exacerbated by changes in family structures and the roles of women.

Increasing life expectancies of women compared to men has raised the average length of widowhood, increasing the economic hardship for women dependent on savings, insurance, or their husband's retirement benefits for income. Seven out of ten women reaching age 65 are, or will become widows and, on average, will live as widows for 18 years. Widows, who constitute two-thirds of all elderly poor units, are the largest group with inadequate benefits. While many widows receive an adequate benefit from social security, some widow's benefits can be particularly low. First, a widow whose spouse dies before she reaches retirement age receives benefits based on an earnings record which has been maintained at the standard of living at the time he died, rather than updated to the standard of living at the time of her retirement. This is due to the price indexing of the earnings record upon the death of the primary earner. If the period between his death and her retirement is lengthy, the relative value of the full retirement benefit can be quite low. In addition, if a widow chooses to begin drawing benefits at age 60—as most widows do—the actual benefit received will be only 71.5 percent of the full benefit.

Survivors of retired two-earner couples often find it difficult to maintain their previous standard of living because their family benefits are reduced by half when their spouse dies. Survivors of retired one-earner couples, on the other hand, receive two-thirds of their previous family benefit.

The increasing rate of divorce is another trend transforming family structure and necessitating changes in social security. In the 1960's and 1970's, several changes were made in social security in response to the rising divorce rate—resulting in the availability of spouses benefits to divorced women whose marriages had lasted 10 or more years. However, the divorced wife is only entitled to the spouses benefit. This benefit, designed to supplement the primary benefit, is rarely adequate to maintain a separate household. And a divorced spouse must wait until the primary earner retires to become eligible for spouse's benefits. In addition, there are problems of equity. For a marriage that lasted for less than half of the worker's career, there is little reason for providing benefits based on the worker's entire wage history. For a lifelong marriage, however, the one-third/two-thirds distribution of benefits conflicts with the concept of an equal partnership.

Questions of equity have also been raised with regard to women who work. Social security provides a lower total family benefit to two-earner couples than to one-earner couples with the same covered earnings.

Several proposals to improve the adequacy of equity of women's benefits have been advanced in recent years. The most prominent proposal is for earnings sharing between a husband and wife. Under this proposal, each partner in a marriage would receive credit for half of the sum of the couple's earnings during the marriage. Each individual would receive benefits based on their own earnings record—and the spouses benefit would be eliminated. This change would enable an individual who is divorced or widowed to add earnings from their own labor supply to earnings acquired through marriage. It would also make social security similar to the treatment, in community property States, of other income and assets obtained during marriage. Pure earnings sharing would weaken survivors and disability benefits. As a result various proposals have suggested modification of the pure earnings sharing approach to allow some inheritance of credits or benefits and to provide full credits in the event of disability.

Inheritance of credits is intended to improve the benefits of widows. This approach would allow surviving spouses to inherit all or a portion of the earnings credit of their deceased spouses and add these to their own earnings credits. Survivors of lifelong marriages would benefit from the provision. However, survivors of short marriages could lose benefits because they would inherit credit only for the years of marriage.

Earnings sharing has become increasingly visible as a reform proposal. In 1981, the President's Commission on Pension Policy recommended that earnings sharing be used upon divorce and that surviving spouses be allowed to inherit their partner's earnings record. In addition, H.R. 3207 introduced in the same year by Representative Pickle, included a provision for limited earnings sharing in the event of divorce.

The strong relationships between pensions, women, and the elderly poor make some modification in social security to improve women's benefits a high priority in the coming years.

(C) NATIONAL COMMISSION RECOMMENDATIONS

(1) Six-Month COLA Delay

The annual cost-of-living adjustment now applied to the June check (payable in July) would be permanently delayed for 6 months, beginning in 1983, so that henceforth it would be applied to the December check (payable in January). As a result, the COLA due in July 1983 would be received by beneficiaries in January 1984 instead. Beginning in 1984, the computation period for the CPI change would be shifted 6 months as well so that it would maintain the same relationship it now has to the COLA. This means that future COLA's would be based on third-quarter comparisons of the CPI, instead of first-quarter comparisons as it is under current law. In addition, for those who receive both social security and SSI, the amount of social security benefits that is disregarded before the unearned income offset is applied would be increased from $20 to $50 monthly.

The effect of the delay would be to reduce the total amount of COLA paid during the year by half in every subsequent year for 35 million social security beneficiaries. It would not, however, affect the monthly amount of COLA that was eventually paid, nor would it affect the real value of future monthly benefit amounts. The dollar value of the income lost due to delayed COLA's would depend upon the annual increase in the CPI. The CPI increase for 1983 is now estimated to be about 4 percent. The average retired worker with a monthly benefit of $416 would have a $17-a-month increase in benefits deferred for 6 months. This would result in $102 less in annual income than under current law. For a beneficiary with monthly benefits of $250, the delay in the $10-a-month benefit increase would result in $60 less in annual income. For 2 million social security beneficiaries receiving SSI, the increase of $30 a month in the disregard will more than offset the delay in the COLA. This change will increase costs to SSI by $4.75 billion between 1983 and 1989.

Savings (1983–89): $39.4 billion
(75 years): 0.30 percent of taxable payroll

(2) COLA Stabilizer

Beginning in 1988, at the earliest, if the ratio of OASDI trust fund reserves to estimated outgo at the beginning of the year is less than 20 percent, the subsequent COLA would be based on the lesser of the increase in the CPI or average wages. When the trust fund ratio at the beginning of the year again exceeds 32 percent, after a period of wage indexing, "catch-up" payments would be provided, increasing benefit amounts to levels they would have attained if full CPI increases had been given in each year. "Catch-up" payments would be provided only to compensate for periods in which people were receiving wage-based COLA's.

The stabilizer is not expected, under current forecasts of the economy, to go into effect. Rather it is designed to protect the trust funds against the possibility that the economy could perform less well than expected. Even then, it is only likely to be effective in protecting the trust funds against a combination of high inflation and slow growth. It is possible that trust fund ratios could be lower than 20 percent even with wage increases slightly above price increases. In this case, the stabilizer would not be activated. In addition, activation of the stabilizer is contingent upon the Congress allowing trust fund reserves to decline to such low levels.

Savings (1983–89): none
(75 years): none

(3) Change in Tax Treatment of Benefits

Beginning in taxable year 1984, half of the social security benefits received in that year would be added to adjusted gross income, if other adjusted gross income exceeds $20,000—in the case of a single taxpayer or a married taxpayer filing separately—or $25,000 in the case of a married couple filing a joint return. The Secretary of the Treasury would be required to transfer the revenues from this provision to the appropriate trust fund on at least a quarterly basis.

An estimated 10 percent of the 35 million beneficiaries will have an increase in their income tax liability as a result of this proposal. A single taxpayer with $30,000 in adjusted gross income, $6,000 in social security benefits, and standard deductions, would have 1984 tax payments $841 higher under this provision than otherwise. However, this individual would only pay $636 more in taxes in 1984 than they did in 1983, due to the effects of the third year of the tax cut.

The National Commission noted that this proposal would result in a "notch." That is, a person with $19,999 in other income would not pay taxes on any portion of their social security benefit, while a person with $20,000 in other income would pay taxes on a full half of their benefit. The Commission expressed its concern that the Congress rectify this notch in the legislative process.

Revenues (1983–89): $26.6 billion
(75 years): 0.63 percent of taxable payroll

(4) Increase in Retirement Age

Eight members of the Commission agreed on a recommendation to raise the social security normal retirement age from age 65 to age 66, beginning for those reaching age 62 in 2000, and phasing it in a month a year until the full age reaches 66 in 2015. The early retirement age of 62 would be retained, and improved disability benefits would be provided for those between ages 60 and 66. Beginning for those reaching age 62 in 2012, the normal retirement age would be automatically adjusted so that the ratio of years of working life (age 20 to 64) to retired life would remain the same as it was in 1990.

An individual retiring in 2015 at age 65 would have a 7-percent reduction in monthly retirement benefits relative to current law. This reduction would apply only to those receiving retirement benefits. It would not apply to those receiving survivors or disability benefits, since these are not actuarially reduced.

Savings (1983–89): none
(75 years): 0.65 percent of taxable payroll

(5) Delayed Retirement Credit

The delayed retirement credit would be gradually increased from 3 to 8 percent between 1990 and 2010. This would result in a full actuarial adjustment for delayed retirement after 2010, eliminating one disincentive to working past age 65. After 2010, an individual who postponed retirement beyond the normal retirement age would no longer experience a loss of lifetime social security benefits as a result. The long-term cost or savings from this proposal depends upon whether large numbers of older persons delay retirement and continue paying the payroll tax.

Cost (1983–89): none
(75 years): 0.11 of taxable payroll

(6) Women's Benefits

Four changes would improve benefits for certain individuals, most of them women. These changes would become effective after December 1983. The four changes would be:

(a) Deferred surviving spouses benefits

During a worker's career, earnings are indexed for wage increases. Upon the worker's death, a surviving spouse's benefits are indexed for price increases, even if the surviving spouse must wait several years to begin receiving them. In a normal period of real wage growth, this indexing causes a loss in the relative value of the benefits. The recommended change would continue to index the earnings record for wages after the death of the worker and until the worker would have reached age 60, or 2 years before the survivor becomes eligible for benefits.

Cost (1983-89): negligible
(75 years): 0.05 percent of taxable payroll

(b) Divorced spouses benefits

A divorced spouse who is eligible for retirement benefits may not draw benefits until the worker begins to draw benefits. This may result in a divorced spouse who is retired or ready to retire waiting several years to begin drawing benefits. The recommended change would make benefits payable at age 62 to divorced spouses, if the former spouse is eligible for retirement benefits, whether or not benefit payments have begun.

Cost (1983-89): $0.1 billion
(75 years): 0.01 percent of taxable payroll

(c) Disabled widow(er)s benefits

Widow(er)s may begin receiving actuarially reduced social security benefits beginning at age 60, and full benefits beginning at age 65. Benefits paid at age 60 are 71.5 percent of the full benefit amount. Disabled widow(er)s may begin receiving reduced benefits at age 50. Benefits paid at this age are 50 percent of the full benefit amount. The recommended change would increase the disabled widow(er)s benefit to 71.5 percent of the full benefit.

Cost (1983-89): $1.4 billion
(75 years): 0.01 percent of taxable payroll

(d) Remarried divorced or disabled widow(er)s

Benefits paid to disabled widow(er)s, divorced widow(er)s, and disabled divorced widow(er)s are not paid if the individual remarries. Widow(er)s benefits are not paid if the individual remarries before age 60, but may be paid if the individual is remarried after age 60. The recommended change would extend the provision for remarried widow(er)s to members of the three groups who remarry. It would allow benefits to continue to be paid to disabled widow(er)s, divorced widow(er)s, and disabled divorced widow(er)s if the marriage takes place after the age of first eligibility for the benefit. The change would eliminate a marriage penalty for these three groups.

Cost (1983-89): $0.1 billion
(75 years): negligible

4. MISCELLANEOUS FINANCING MEASURES

(A) BACKGROUND

As the social security financing problem has grown more immediate, the opportunity to resolve these problems through moderate payroll tax and benefit modifications has diminished. With each delay there has been further deterioration in economic forecasts, and more severe financing problems in social security. The National Commission, in its review of the financing needs of the system, established quite clearly that there is an urgent and quite substantial need for revenues and/or savings in the first few years. Under the 1983 trustees report intermediate and pessimistic assumptions, OASDI would need more than $20 billion each year in 1983 and 1984 to maintain a 15-percent reserve ratio. No proposal to cut the benefits of future beneficiaries, and no options for adjusting the COLA could provide sufficient financing in the first 2 years to meet this need. In addition, no Commission member wanted to raise payroll taxes significantly in the next few years, with unemployment in excess of 10 percent.

Under these circumstances, the only choice left to the Commission was to look for immediate sources of revenue that could get the trust funds over the hurdle of the first 2 years, and provide some margin of safety if the assumptions proved to be too optimistic. The Commission adopted four simple recommendations which are intended to help the OASI trust funds remain solvent over the next few years: (1) A lump-sum transfer from the Treasury to the OASDI trust funds to pay for gratuitous military service credits and uncashed checks, (2) reallocation of a portion of the DI tax rate to OASI, (3) extension through 1987 of authority for OASDI to borrow from the HI trust fund, and (4) the adoption of a "fail-safe" mechanism to assure that benefits could be paid on time if unanticipated adverse economic conditions develop.

(B) NATIONAL COMMISSION RECOMMENDATIONS

(1) Lump-Sum Payments

The Commission recommended that three kinds of lump-sum payments be made from the Treasury to the social security trust funds in 1983: Payments for gratuitous military service wage credits granted for service before 1957, payments for gratuitous military service wage credits for service between 1957 and 1983, and reimbursement for the amount of outstanding uncashed OASDI checks.

(a) Military service wage credits before 1957

Social security coverage was first extended to the military in 1957. Those who were in the service at that time were given a wage credit on their earnings records equal to $160 for each month of service before 1957. These wage credits are financed through payments from the general funds to the social security trust funds. The total payments are amortized over the next 30 years, so that level "amortization" payments are made each year to the social security trust funds. The recommendation of the Commission is to transfer in a lump sum the estimated future liabilities for the pre-1957 wage credits. Adjustments would be made in future years to reflect actual experience.

(b) Military service wage credits 1957 to 1982

Since 1957, the military has begun making regular employer and employee contributions on cash pay. In addition, in recognition of the in-kind benefits provided the military, there is an additional wage credit given at the rate of $100 per month of service. These wage credits are financed from the general fund at the time benefits are paid. The payments are equal to the increases in benefits resulting from the wage credits. The Commission recommendation is to transfer a lump sum from the Treasury equal to the accumulated employer-employee taxes on wage credits already granted (plus interest) with adjustments for any past excess payments. Wage credits for service after 1982 would be financed by transferring to the OASDI trust funds on a current basis the employer-employee taxes on the wage credits.

(c) Uncashed social security checks

At the beginning of each month, money is transferred from the social security trust funds to the general fund to cover the total value of all social security checks issued by the Treasury. Once these checks are issued there is no limit to their negotiability. Some checks are cashed by beneficiaries immediately. Others, however, are lost, stolen, or "saved" by the beneficiaries and are neither reported nor returned. The amount that has been transferred to the general fund to cover these unnegotiated checks is never restored because there is no limit on the negotiability of the checks. In 1976, the Social Security Administration estimated, based on a sample of social security checks issued, that about $250 million in OASDI checks remained outstanding for a year or more. In addition, if the amount of unnegotiated social security checks were credited to the trust funds, the annual increase in income would be about $30 million a year. The Treasury has now developed a procedure to reimburse the trust funds for checks which remain uncashed in the future for more than a year. The Commission recommendation is to transfer a lump sum of about $400 million to the OASDI trust funds in payment for currently outstanding OASDI checks.

Revenues (total) (1983–89): $17.2 billion
(75 years): negligible

(2) Tax Rate Reallocation

Under current law, using intermediate assumptions, OASI trust fund reserves are never expected to fully recover over the next 75 years. DI trust fund reserves, on the other hand, are expected to build substantially over the next 75 years, reaching levels 30 times as great as the annual outgo from the fund. This discrepancy between the two funds is a function of the tax rates which have been assigned to each under current law. Though the two trust funds are usually treated as a single unit in analyzing the long-run problem, and together, under current law, their reserves are expected to accumulate toward the end of this century and the beginning of the next, they remain separate trust funds by statute. In order to smooth out the discrepancies between the performance of these two trust funds, without merging them in statute, the Commission recommended that the tax rates for OASI and DI be reallocated to maintain similar fund ratios in each.

TABLE 9.—REALLOCATION OF OASI AND DI TAX RATES

Year	Present law tax rates (percent)		Proposed tax rates (percent)	
	OASI	DI	OASI	DI
1983	4.575	0.825	4.575	0.825
1984	4.575	0.825	5.45	0.25
1985 to 1987	4.750	0.950	5.20	0.50
1988 to 1989	4.750	0.950	5.56	0.50
1990 +	5.100	1.100	5.40	0.80

(3) Extension of Interfund Borrowing Authority

To defer the onset of cash flow problems in the OASI trust funds and give the National Commission time to develop a consensus package, the Congress authorized limited borrowing from the DI and HI trust funds as part of the Social Security Amendments of 1981 (Public Law 97-123). Borrowing authority expired at the end of 1982 and was limited to the amount necessary to enable OASI to make timely payment of benefits through the end of June 1983. The amount borrowed was to be repaid with interest at a time and in a manner determined by the Managing Trustee (the Secretary of the Treasury). In November and December 1982, OASI borrowed $17 billion from DI and HI trust fund reserves. The Commission recommended that borrowing for the OASI and DI trust funds from the HI trust fund be authorized through 1987, with repayment under provisions similar to those governing the 1982 borrowing. This authority will enable OASI and DI to use HI reserves to meet emergency needs over the next 5 years, until the 1988 tax rate increases go into effect. The HI trust fund had about $16 billion in reserve at the end of 1982, equal to about 20 percent of anticipated outgo in 1983. However, these reserves are expected to decline rapidly over the next 5 years. For this reason, borrowing is expected to be used only if other measures are insufficient to enable OASDI to make timely benefit payments.

(4) Fail-Safe

The Commission believed that, in addition to the measures mentioned above to maintain adequate financing between 1983 and 1987, and in addition to the COLA "stabilizer," a "fail-safe" mechanism should be implemented to assure that the occurrence of unexpected adverse economic conditions would not prevent the timely payment of benefits. The options for a fail-safe are to enact limited authority to borrow from the general fund, or to enact automatic COLA reductions or payroll tax rate increases which would go into effect when reserves reach a specified danger level. The Commission, however, was unable to reach agreement on a specific fail-safe mechanism, but suggested there could be a combination of mechanisms. The difficulty with reaching agreement on a fail-safe mechanism is that any choice would, necessarily result in either an automatic tap on the Treasury, or an automatic change in the program. This would give the Congress an opportunity to automatically restructure the program in ways not normally possible through the legislative process, and many see this as unwise.

5. Additional Proposals

(A) BACKGROUND

The National Commission also made four recommendations which have no significant effect on program financing. These recommendations are largely in response to concerns which have been expressed about how legislation is enacted and how the program is administered. They are intended to help restore public confidence in the program.

(B) NATIONAL COMMISSION RECOMMENDATIONS

(1) Investment of the Trust Funds

High rates of interest paid on Government securities in recent years led to concern about social security trust fund investment practices established by statute and Treasury practice over the past 20 years.

Currently, payroll tax revenues available for investment are put into certificates of indebtedness which mature the following June 30. Each June 30, these certificates are rolled over into longer term special issue securities. Treasury sets maturity dates on the new special issues to achieve an even portfolio spread over the next 15 years. Interest paid on new special issues is set equal to the average market yield on all interest-bearing obligations of the United States with maturities of more than 4 years. During the year, when securities must be sold to meet benefit obligations, special issues which are closest to maturity are redeemed first. When several securities with the same maturity are available, those with the lowest interest are redeemed first. Special issues may be redeemed at par at any time. Once all special issues have been redeemed, marketable obligations would have to be sold at a capital loss.

In general, the policy of investing in longer term securities has led to an average portfolio yield which has consistently lagged behind current market rates due to rising interest rates over time. In fiscal year 1981, the four social security trust funds earned an average yield of 9.2 percent compared to a composite rate on all Treasury securities of 13.2 percent. It has been estimated that over the last 21 years the trust funds received an average annual yield of 5.2 percent compared to an average market rate on all Treasury securities of 6.3 percent.

In addition to the question of how to improve trust fund performance in the context of fluctuations in the relative yield of short-term and long-term investments, there is the question of how to change investment practices in response to the current rapid decline in the trust fund reserves. Current investment practices are based on the assumption that the trust funds have substantial reserves which remain relatively stable in the long run. The emphasis on a 15-year spread of maturity dates, the policy of redeeming the earliest maturities first, and the bias toward long-term interest rates all seem questionable, however, when the trust funds are being rapidly depleted and special issues are being cashed in to pay benefits. At issue is not only the specific practice of the Managing Trustee, but also the inability of the Managing Trustee to change practices when situations warrant.

Finally, there is the more peripheral question of whether the interest calculated for new special issues to the trust funds should be changed to reflect the current average market yield of all Treasury securities which the trust funds are permitted to purchase. There is little disagreement that the current method for assigning interest rates has some unfair downward bias.

In response to these concerns about trust fund investment, the National Commission recommended that investment practices be revised. Specifically, they recommended that all future special issues be invested on a month-to-month basis at an interest rate based on the current average market yield of all public debt obligations (except those with artificially low yields) with a maturity of 4 years or more. All present special issues would be redeemed at par, but all marketable securities would be held until maturity. The trust funds would only purchase special issues in the future.

(2) Social Security and the Unified Budget

Prior to the submission of the first unified Federal budget in fiscal year 1969, the operations of the social security trust funds were accounted for apart from the "administrative budget"—in a special trust fund budget. Although the operations of the trust funds were accounted for in a separate budget, the trust fund budget was combined, for purposes of economic analysis, with the administrative budget in special summary tables included in the annual budget document.

Beginning with the fiscal year 1969 budget, accounts for the OASDI trust funds were combined with those of general-revenue-financed income maintenance programs in the income security function of the unified budget, while the operations of the HI trust funds were combined with the general-revenue-financed health care and health financing programs in the health function of the unified budget. In 1974, the Congress implicitly approved the use of a unified budget by including social security trust fund operations in the annual budget process set up under the Congressional Budget and Impoundment Control Act. Inclusion of trust fund operations in the unified budget has resulted in the annual surpluses and deficits in the operation of these funds either increasing or decreasing the general budget deficit that would have otherwise been shown.

Those who support removing the trust fund operations from the unified budget believe that the present method of accounting makes the operation of the trust funds unclear and provides a misleading picture of annual budget deficits. In years when social security is building trust fund reserves by running surpluses, the total budget deficit is reduced, even though the revenues coming into social security are not available for current spending. In years when social security is spending trust fund reserves by running deficits, the total budget deficit is increased even though there is no increased claim on available revenues.

Proponents also believe that social security is a program which should not be continually adjusted solely for the purpose of correcting the effects of its annual surpluses or deficits on the overall Federal budget. Because it has a long time-horizon with benefits in the distant future based on the current earnings and tax payments of workers, it is important that permanent changes in the system enhance the long-run integrity of the system and not be precipitously made to meet the immediate needs of the Federal budget.

Finally, those who support separation from the unified budget point out that the effect of this shift would be only to remove social security from the annual budget debate. It would not limit the ability of the Congress to review total Federal expenditures and their impact on the economy.

Those who oppose this recommendation believe that it is essential that the operations of the social security program remain in the unified Federal budget because the program involves such a large proportion of all Federal outlays. Thus, to omit its operations would misrepresent the activities of the Federal Government and their economic impact. In addition, opponents suggest removal from the budget would weaken congressional discipline to address financing problems.

A majority of the members of the National Commission recommended that the operations of the OASI, DI, HI, and SMI trust funds be removed from the unified Federal budget. Some who did not support this recommendation believed the issue would be adequately addressed if the operations of the social security system were displayed within the present unified budget as a separate budget function, apart from other income security programs.

(3) Public Members on the Board of Trustees

Currently, the trustees of the social security trust funds are members of the administration: The Secretaries of Treasury, Labor, Health and Human Services, and the Social Security Commissioner and Administrator of HCFA. In the past there has been concern that this leads to a political bias in the selection of assumptions for cost estimates and a conflict of interest in making decisions on investment procedures. The National Commission recommended that two individuals outside the executive branch be added to the OASDI Board of Trustees, no more than one from any particular party. This change is intended to increase public confidence in the integrity of the trust funds.

(4) Independent Agency Status

The Social Security Administration has been a part of the Department of Health and Human Services (or its predecessor HEW) since the creation of the Department in 1953. The original Social Security Board was created as an independent agency, but was subsumed under the Federal Security Agency in 1939. Those who favor making the Social Security Administration a separate agency again emphasize that it is larger in number of employees (over 80,000) and budget (over $150 billion) than any other Federal Department except the Department of Defense. There is also concern that, because it is such a large part of the Department of Health and

Human Services budget, Social Security distorts the perspective in the Department and encourages the use of program changes in social security to meet short-term departmental budget targets. Proponents feel that separation would encourage a longer term perspective in the administration of the program. In addition, the perception that social security is independent of politics and the budget process will help inspire greater public confidence in the program. Those who oppose independent agency status generally raise the problems of sorting social security's programs from other health and income security programs in the Department now administered by the Social Security Administration. Opponents also question the ability or the wisdom of insulating social security from the political process. The National Commission endorsed the separation of the Social Security Administration in principle, and recommended that a study be undertaken on the feasibility of doing this.

D. CONCLUSION

With the leadership in the Congress committed to a quick enactment of social security financing legislation, it appears likely that this issue will be resolved, at least for the near future. Whether social security can remain solvent for the next decade and the next 75 years depends upon how economic and demographic conditions change this year and over the long run. Ultimately, it may be impossible to permanently fix social security, for it is a program sensitive to the economy as well as to shifting values and concerns of society. Moreover, social security is made operational through the political process. This is both its strongest and its most vulnerable feature. Social security is dependent upon the strength of the Nation and the political consensus that supports it. Germany established its social security system in the 1880's and has continued to operate it through two devastating world wars and complete economic collapse, paying benefits to those who contributed 50 years ago and who lost pension benefits and savings in the turmoil. As long as this country and its people remain committed to social security, a system to pay benefits to future generations will be maintained. Financing problems will undoubtedly occur periodically in the future, for there is no way to totally insulate the system from its economic underpinnings. The reoccurrence of problems is not necessarily a sign of weakness in the system, however, unless these problems go unresolved. The success of the Congress in negotiating a solution this year to social security's problems—one which does not require a major redesign of the system—will be testimony to the permanence of the social security system as a fixture in our society.

Chapter 4

EMPLOYEE PENSIONS

OVERVIEW

After the introduction in 1981 of significant legislative initiatives in three pension areas: Simplification of ERISA, multiemployer pension plan withdrawal liability, and public pension regulation, there was little progress on any of these issues in 1982. The Congress seemed generally deadlocked on any changes in employer pensions. And significant action on pension issues was deferred to the 98th Congress.

The one major exception to this trend was the significant change in corporate and noncorporate pension rules accomplished as part of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). This tax legislation, enacted primarily to meet revenue targets in the fiscal year 1983 budget, lowered the amount of tax deductible contributions that can be made to a corporate pension plan, established parity between corporate and noncorporate plans, and instituted new rules for "top heavy" pension plans.

Budget concerns also prevailed for the Federal Civil Service Retirement System (CSRS). The issue of reform of the CSRS was raised with the introduction in 1982 of S. 2905—"The Civil Service Pension Reform Act of 1982"—followed by the recommendation of the National Commission on Social Security Reform that new Federal employees be covered under social security. However, the only legislation enacted in 1982 affecting the civil service retirement system was the Omnibus Budget Reconciliation Act of 1982 which reduced cost-of-living adjustments in Federal civilian and military pensions for retirees under age 62.

The major pension issues raised in the 97th Congress, for the most part remain to be solved by the 98th Congress.

A. HISTORICAL DEVELOPMENT

While the earliest pension plans were offered toward the end of the 19th century, private and public pension plans have only become a significant factor in the provision of retirement income in the last 30 years. The early development of private pensions was spurred primarily by the desire of employers to improve labor stability and productivity. Pensions were variously viewed as a way of encouraging loyalty and long service, as a means of reducing worker turnover, and, coupled with mandatory retirement, as a way of humanely removing superannuated employees. Federal tax laws added a further incentive to employers by allowing them to exempt contributions to pension plans from corporate income taxes. Employers establishing pension plans were frequently supported by unions, who saw the pension plans as a moral obligation of the employer to compensate workers for depreciation over a career of employment.

Civil service pensions were also initiated in the 19th century, beginning with the development of State and local government plans for firemen, policemen, and teachers. It was not, however, until the 1920's that public pensions began to increase in prevalence and coverage. Mounting concern about government efficiency and the problem of superannuated Federal employees led to the establishment of the Federal Civil Service Retirement System in 1920. Pension plans for State and local government employees also became more popular in the 1920's. However, major expansion in public employee pensions did not come about until the 1940's and 1950's. At the Federal level this trend was a result of the burgeoning Federal work force during and after World War II. At the State and local level, professionalization of government employees, a desire to avoid social security coverage of government employees, and an increasing awareness of retirement income needs contributed to the growth of public employee pension coverage.

The development of private pension plans, which had been slow in the 1920's and 1930's, also began to increase rapidly in the 1940's and 1950's. This sudden increase was the result of three factors. First, tax sheltering of corporate and personal income became more important when personal and corporate tax rates were raised precipitously in 1940. Congress, responding to these heightened tax incentives, tightened the requirements for qualification of a plan and improved the tax advantages for qualified plans in the Revenue Act of 1942. Under the terms of this act, qualified plans could realize three tax advantages: (1) Tax deductibility of employer contributions; (2) tax deferral of plan investment income; and (3) tax deferral of employer contributions until pension benefits were received in retirement. These added advantages provided tremendous incentives for the expansion of qualified pension plans.

A second factor was that firms were forced, as a result of wage freezes during World War II and the Korean War, to provide compensation increases to workers in the form of benefits instead of cash wages.

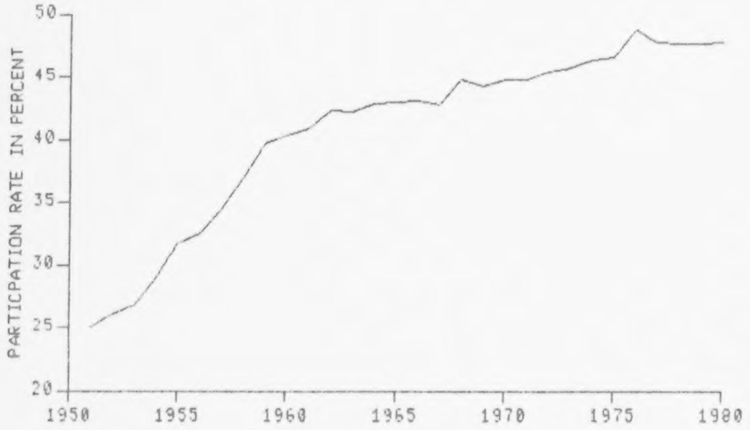
A third factor was that labor unions became increasingly interested in the 1940's in including pension benefits in negotiations for compensation. Union interest in pension benefits stemmed from the settlement of the mineworkers strike in 1946 which included the establishment of the mineworkers pension fund. Union interest was further spurred by the 1949 Supreme Court decision in the *Inland Steel* case, which upheld the National Labor Relations Board's decision that pension and welfare benefits were a proper subject for collective bargaining. Increasing recognition by unions that social security benefits were inadequate, coupled with the finding by the Steel Industry Factfinding Committee in 1949 that the steel industry had a social obligation to provide pensions to workers, further fueled the pursuit of pension benefits through labor negotiation. By 1950, nearly all major unions had successfully negotiated pension plans.

The change in incentives for the formation of private pension plans after 1940 produced a rapid expansion in both the number of pension plans and the proportion of the private wage and salary labor force covered by pensions. In the first 20 years after 1940, the growth in pension coverage was particularly rapid due to the immediate development of pension plans by the largest employers. As the number of qualified pension profit-sharing and stock bonus plans increased from 700 to 64,000,[1] the proportion of workers covered by private pensions increased from 12 percent to about 33 percent.[2]

In the second 20-year period, the expansion of coverage slowed considerably due to a trend toward coverage of workers in smaller firms. While pension coverage had increased at an average annual rate of 12 percent in the 1940's and 7 percent in the 1950's, between 1960 and 1974, pension coverage grew at a rate of only 3 percent a year. Overall, the proportion of covered workers increased from 33 percent to only 40 percent.[3]

CHART 1

PERCENT OF PRIVATE, NON-AGRICULTURAL, WAGE AND SALARY WORKER'S PARTICIPATION IN 1950-1979



SOURCE: Scheiber, Sylvester. Social Security: Perspectives on Preserving the System, Employee Benefit Research Institute 1982. From IRS data. Table II-1.

During this same period, however, the number of qualified plans in effect increased dramatically from 64,000 to nearly 425,000. By the early seventies, although there was an average net increase of 50,000 new plans a year, the rate of worker participation in plans was leveling off.[4]

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[1] Spencer, Charles, and Associates. Pension and Profit-Sharing Plans in Effect, Based on IRS Data. EBPR research reports, 1939-75.

[2] Schultz, James H. The Economics of Aging. 2d edition Belmont, Wadsworth, 1980, table 23.

[3] Ibid., p. 126: and table 23.

[4] Spencer, Charles. Pension and Profit-Sharing Plan.

B. CHARACTERISTICS OF PRIVATE PENSIONS

Today, there are more than 42 million private sector wage and salary workers actively participating in one or more of over 450,000 private pension plans.[5] These pension plans are of two types—defined benefit, and defined contribution plans. Defined benefit plans, which account for about 30 percent of all plans and 70 percent of all participants, are plans which pay the workers a specified benefit frequently based on a combination of his years of service, and recent earnings experience. Defined contribution plans, which account for about 70 percent of all plans and only 30 percent of all participants, are plans in which the rate of contribution is specified, and benefits are unpredictable—since they are tied to the rate of return on the plan's investment.[6]

The majority of pension plans are small. As of 1977, three out of five plans had fewer than 10 participants, and 90 percent of all plans had fewer than 100 participants. Most of the small plans are defined contribution plans. Defined benefit plans tend to be larger, with 95 percent of all workers participating in defined benefit plans covered by plans with 100 or more members. While two-thirds of all private pension plans are small, defined contribution plans, two-thirds of all participating workers are in large defined benefit plans.[7]

Defined benefit plans pay either a flat-rate benefit or an earnings-related benefit. Flat-rate plans, also called pattern plans, cover about half of all participants in defined benefit plans, primarily employees paid hourly wages in collectively bargained plans. These plans pay a fixed dollar amount to the participant for each year of service under the plan. Three-quarters of the participants in flat-rate plans are in plans which use a single flat rate for all employees regardless of their job classification or wage. Another quarter are in plans using staggered flat rates which pay different dollar amounts for different job classifications.

Earnings-related plans, also called "conventional plans," usually cover salaried employees or a combination of salary and wage employees, and pay benefits in proportion to the worker's earnings.

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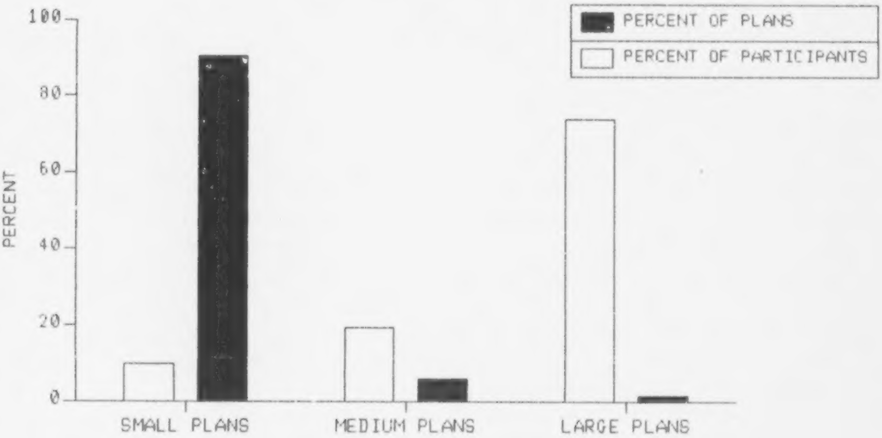
[5] U.S. Dept. of Labor. Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977. 1981. p. 1.

[6] Ibid., pp. 1-3.

[7] Ibid., p. 2.

CHART 2

PERCENT OF PENSION PLANS AND PLAN PARTICIPANTS
BY PLAN SIZE, 1977



SOURCE: U.S. Department of Labor, Pension and Welfare Benefit Programs, Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977. Tables 1 and 2

Usually the benefit is derived by mulitiplying a percentage of the employee's average earnings over some specified period by his years of service under the plan. The earnings which are averaged in calculating the benefit may be the worker's career earnings under the plan, but are often the worker's highest 3 or 5 years of earnings, or the worker's earnings in his final 5 or 10 years of employment. The aim of an earnings-related plan is to pay the worker some fixed proportion of preretirement earnings to assure that pension benefits bear a set relationship to employees' standards of living, regardless of what happens in the economy. In general, final earnings and high years' earnings formulas pay initial benefits which have a more direct relationship to the employees' final preretirement standard of living than do the benefits paid under career average formulas.

These features make the defined benefit plan advantageous to a worker who remains with a single employer throughout his career. However, workers who participate in defined benefit plans and change employers during their careers have their benefits reduced or eliminated as a result. One reason is that most participants in defined benefit plans have to work for the same employer for 10 years to become vested for pension benefits. A worker who leaves early not only loses his right to benefits, but also is unlikely to have made any contributions to the plan which he could otherwise withdraw. A worker who stays with the same employer for more than 10 years, but leaves that employer several years before retiring, will find upon retirement, that the purchasing power of his fixed dollar pension has been eroded by inflation. These features of defined benefit plans tend to penalize mobile workers.

Employers can offer defined benefit plans as a way of rewarding loyal employees and reducing their labor turnover. In addition, the benefit formula can be set to influence employees decisions about work and retirement. However, there are disadvantages for the employer as well. Employers who offer defined benefit plans are obligated to provide the benefits they have promised. If their assumptions about future plan performance prove to be optimistic, employers may find it necessary to increase their contributions to finance the benefits. In this sense, the employers' pension costs are uncertain, and deterioration in the economy can lead to the build up of large unfunded pension liabilities.

Defined contribution plans include money-purchase and profit-sharing plans. In money-purchase plans, a periodic contribution of a specified percentage of earnings is set aside in an individual employee account. In profit-sharing plans, the periodic contributions to each account are a function of the profits of the firm and may vary each year. In both cases benefits are paid out based on the funds which have accumulated in the individual account at the time of retirement. In 1974, 70 percent of all participants in defined contribution plans were in money-purchase plans.[8]

Defined contribution plans cannot offer the worker predictable benefits, since the benefits paid depend upon the performance of investments. Individual employees may find upon retirement that the benefits paid are less than or greater than the benefits projected by the plan. In this sense, the employee, and not the employer, bears the risk. Defined contribution plans, however, have the advantage of not extracting as heavy a penalty for job mobility. Defined contribution plans are likely to allow the employee to gradually vest in his pension benefits, and are also likely to include employee contributions. Thus, even workers who leave before fully vesting can take some benefits with them. In addition, since the employee has an account which is invested, there is continuing growth in the value of his benefits even after he leaves the employer. As a result, benefits paid by defined contribution plans tend to be less sensitive than benefits paid by defined benefit plans to employee's job changes.

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[8] U.S. Congress. Senate. Special Committee on Aging. Linkages Between Private Pensions and Social Security Reform. Committee Print, 97th Congress, 2d Session, Washington, U.S. Govt. Print. Off., 1982.

By the same token defined contributions are difficult for an employer to use in rewarding career workers or influencing the work and retirement choices of employees. However, the advantage to the employer of offering a defined contribution plan is that his liability is limited to the periodic contributions he makes to the plan. Once these contributions are made, the employer has no further financial obligation.

It is important to realize that, in practice, the choice of a defined benefit or a defined contribution plan is not mutually exclusive. Major employers who include defined benefit plans in their benefit package often supplement those benefits with defined contribution plans which may be specifically targeted to attract highly skilled workers with relatively short tenures. They are also a way of increasing benefits without increasing the employer's future liability.

Another way of looking at pension plans is to differentiate between plans sponsored by a single employer and those sponsored by a group of employers or employers and labor organizations. Single employer plans are the most common, covering about 85 percent of all participating workers. In these plans, the employer sponsors and either administers or contracts for the administration of the plan separately. Multiemployer plans usually cover employees in an industry or craft in a specified geographic area. These plans require employers to make specified contributions on behalf of each worker to a central fund. Employees can continue to accumulate years of service under the plan by working for any of the employers in the plan. While the contribution rate is determined through collective bargaining, benefits are defined by the plan's trustees who are representatives of labor and management. Multiemployer plans offer workers better portability of their pensions than single employer plans because years of service continue to be credited to the workers account as he moves from one participating employer to another. However, benefit guarantees in multiemployer plans may not be as sound. While benefits are fully protected if a particular employer leaves the plan, if the plan terminates, workers benefits are only partially protected by plan termination insurance. Multiemployer plans can also be a problem for the employer. The defined benefits promised by the plan leave employers liable for future benefit obligations, as in single employer defined benefit plans, but in multiemployer plans employers share control over benefit levels with the labor union. In addition, termination of plan participation by one employer can increase the future benefit obligations of other employers participating in the multiemployer plan.

C. THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974

1. Origins[9]

Prior to 1974, private pension growth had taken place in largely unregulated environments. Early restrictions on private plans were developed primarily through the Internal Revenue Code, and were aimed at preventing employers from developing plans only for tax advantages and diverting plan assets and income to their exclusive use. The Revenue Act of 1942 provided special tax advantages for qualified plans and required, as a condition for qualification, that plans not discriminate in their coverage, benefits, and financing in favor of supervisors, highly paid employees, officers, and shareholders. Regulations and rulings of the IRS over the next 12 years added further detail to the requirements for plan qualification to protect general employee interests and prevent misuse of pension plans as tax shelters. Revision of the Internal Revenue Code in 1954 left these requirements in place. Prior to 1974, however, there were no provisions in the code to require adequate funding of pension plans, to guarantee pension benefits, to enforce individual participants' rights to benefits, or to establish standards for plan administration and management of plan assets.

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[9] McGill, Dan N. Fundamentals of Private Pensions. 4th edition. Homewood, Richard D. Irwin, Inc., 1979. pp. 30-37.

During the 1950's, as private pensions assumed rapidly increasing responsibility for providing retirement income, concern began to mount about pension plan abuses. Complaints surfaced about losses of benefits by employees after long years of service because of company mergers, plant closings, employer bankruptcies, and unemployment. Stringent age and service requirements prevented many loyal workers from receiving pension benefits when they voluntarily or involuntarily retired before the plan's eligibility age. In addition, there was growing evidence of fraud, embezzlement, and mismanagement in the investment of pension funds.

In response to these problems, Congress moved to increase protection of the rights of individual participants and reduce plan asset mismanagement by enacting the Welfare and Pension Plans Disclosure Act of 1958. This act however placed primary responsibility for monitoring plan activity in the hands of plan participants themselves. Plan administrators were required to make copies of the plan and annual reports available to plan participants. Participants were expected to spot fraudulent or criminal activity through the annual report, and bring action under State or Federal laws to protect plan assets. Even though the burden for investigation and enforcement was shifted from plan participants to the Departments of Justice and Labor in the 1962 amendments to the act, the law continued to provide inadequate protection for the rights of individual participants.

Continuing pension plan abuses led to the establishment of the President's Committee on Corporate Pension Funds which released its report in 1965. In its report, the committee recommended that Federal standards be imposed on private pension plans. In particular, the committee recommended the development of mandatory minimum vesting and funding standards, and concluded that a pension plan termination insurance program, and a mechanism for portability of pension benefits were worthy of serious study. The release of this report led to the introduction of the Pension Benefit Security Act to Congress in 1968. This bill and other pension reform bills were introduced in successive sessions of Congress until finally the Employee Retirement Income Security Act (ERISA) was enacted in 1974.

2. MAJOR PROVISIONS

ERISA is one of the most lengthy and complex pieces of legislation to be enacted in recent years. The primary intent of this act is to protect the pension and welfare benefit rights of workers and beneficiaries. It addresses this goal through eight sets of provisions:

(a) *Participation provisions:* These provisions limit the age and service requirements for eligibility for participation in a pension plan. In general, an employee cannot be excluded from a plan on account of age and service if he is at least 25 years old and has at least 1 year of service (a period of 12 months with at least 1,000 hours of work).

(b) *Vesting, break in service, and benefit accrual provisions:* These provisions assure that employees who work for the same firm for a reasonable length of time receive some pension at retirement age.

> (1) Vesting: There are three alternative standards for vesting: (i) Full vesting of 100 percent of accrued benefits after 10 years of service; (ii) graded vesting of 25 percent of accrued benefits after 5 years of service increasing by 5 percent each year for the next 5 years and 10 percent for each year thereafter, so that 100 percent vesting is attained after 15 years of covered service; (iii) graded vesting of 50 percent of accrued benefits when age and service add up to 45 years, increasing by 10 percent each year over the next 5 years.
>
> (2) Break in service: Requires a plan to credit an employee for all service with an employer before and after a "break in service." The plan may require a specified waiting period before prebreak and postbreak service are aggregated, but must later give credit for that period. Nonvested employees may not lose credits for prebreak service until the period of absence equals the years of covered service.
>
> (3) Benefit accrual: Establishes a standard of uniformity in rates of benefit accrual to prevent plans from accruing benefits at lower rates in early years of employment or younger ages.
>
> (4) Portability: With the consent of employers, employees may transfer vested pension benefits tax free to an IRA and another employer upon separation from the firm.

(c) *Joint and survivor provisions:* This provision improves benefits for spouses, by requiring pension plans to offer certain workers the option of electing a 50-percent joint and survivor annuity at the initial age for early retirement or 10 years before normal retirement—in exchange for a lower pension amount. All workers must be provided this protection at the time of actual retirement unless they elect otherwise.

(d) *Funding provisions:* These provisions set standards for the funding of plans to assure that plans have the money to pay benefits when due. Plans created after ERISA were to develop full funding for benefit obligations within 30 years. Plans predating ERISA were allowed 40 years to develop full funding.

(e) *Fiduciary provisions:* These provisions set standards for the administration and management of plan funds. Plans are required to diversify their assets, and they may not buy or sell, exchange or lease property with a "party-in-interest." They may not divert plan assets or income to any other use than payment of benefits or reasonable plan administration expenses.

(f) *Reporting and disclosure provisions:* These provisions are designed to assure that employees and their beneficiaries know their rights and obligations under the plans, and to assure that Government agencies have the necessary information to enforce the law. Plans with over 100 participants are required to file detailed financial and actuarial data. Moreover, defined benefit plans must submit an audited financial statement and a certified actuarial statement. Plans with fewer than 100 participants are only required to file a simplified financial and actuarial report. All plans are required to furnish each participant and beneficiary with copies of the summary plan description and annual reports. Other statements are required when firms merge or transfer assets for a qualified plan, terminate a qualified plan, or when an employee with vested benefits terminates from a plan.

(g) *Plan termination insurance provisions:* These provisions assure that persons with vested benefits will receive a pension in the event that their defined benefit pension plan terminates with insufficient funds to pay benefits. Plan termination insurance is established through annual premiums paid by employers to a nonprofit Government corporation—the Pension Benefit Guaranty Corporation (PBGC). Single employer and multiemployer plans are treated differently under these provisions. In the original act, plan termination insurance was extended only to single employer plans. If a single employer, defined benefit plan terminates with insufficient funds, employees may qualify for a benefit of up to $1,381 a month (1982) (adjusted annually for changes in social security contributions and benefit levels). Employers terminating plans are liable for up to 30 percent of their net worth. Multiemployer plans were brought under the plan termination provisions in 1980. Under the 1980 amendments, the PBGC is required to provide financial assistance to a multiemployer plan when it becomes insolvent to enable it to pay guaranteed benefits, whether or not it terminates. Only a portion of the vested benefit in a multiemployer plan is guaranteed. In the event of insolvency or termination, the PBGC will guarantee 100 percent of the first $5 plus 75 percent of the next $15 of monthly benefits per year of service. Annual PBGC premiums for each participant are set at a higher rate for multiemployer plans than for single employer plans.

(h) *Individual retirement accounts and Keogh provisions:* ERISA provisions enabled employees not covered by a pension plan to take an annual tax deduction for contributions to an individual retirement account (IRA). ERISA set maximum IRA contribution levels at the lesser of 15 percent of compensation or $1,500 a year, and raised maximum Keogh contribution levels to the lesser of 15 percent of compensation or $7,500 a year. The Economic Recovery Tax Act of 1981 extended IRA eligibility to earners who are also covered by a pension, and raised maximum IRA and Keogh contribution levels. Individuals may contribute the lesser of 100 percent of compensation or $2,000 a year to an IRA, and the lesser of 15 percent of compensation or $15,000 a year to a Keogh plan. The Tax Equity and Fiscal Responsibilty Act of 1982 basically eliminated the distinction in tax law between qualified corporate pension plans and Keogh plans for self-employed individuals. Effective in 1984, annual deductible contributions to a Keogh plan will generally be limited to 25 percent of compensation up to a maximum of $30,000.

(i) *Administration:* Administration for various provisions of the law was assigned either to the Department of Labor, the Internal Revenue Service, or the Pension Benefit Guaranty Corporation.

While ERISA dramatically increased the protection afforded for worker's pension benefits, it carefully limited its protections to workers who fulfilled conditions for participation and vesting as specified in the act. ERISA did not attempt to guarantee a pension to every worker, nor to assure that pension benefits that are received are adequate. In addition, ERISA did not attempt to provide full protection to spouses of deceased or retired workers, and it did not provide for portability of benefits other than in cases when plan sponsors chose to incorporate this option.

3. Effects of ERISA on Private Pension Plans

Since the enactment of ERISA, there has been concern and controversy regarding the impact of this law on the development of pension plans, and on the nature of plan provisions. As ERISA brought into play a new set of plan standards and reporting and disclosure requirements in the pension industry, it was inevitable there would be disruption for private pension plans and added plan expenses. In retrospect, however, there is some question about how severe and long lasting this disruption has been, and whether it has had any lasting impact on the extent of pension coverage.

ERISA's most dramatic effects have been on the numbers of existing pension plans. When the law was passed, most pension plans were able to modify plan provisions and management procedures to meet standards and reporting requirements without serious disruption or excessive costs. However, many plans, particularly smaller plans, were unwilling or unable to meet the standards or the costs imposed by ERISA. In most cases these plans terminated. One interpretation of the impact of ERISA is that it weeded out the marginal pension plans—the very type of plan which led to the enactment of ERISA.

Defined benefit plans were the most directly affected, and here the numbers are startling. Prior to the enactment of ERISA the number of defined benefit plans had been rising from a low of about 5,000 net new plans a year in 1960, to a high of about 32,000 net new plans a year in 1973. In the years immediately following the enactment of ERISA, terminations of defined benefit plans tripled and creations of defined benefit plans were reduced by more than 80 percent. In 1976, there was actually a net loss of 4,000 defined benefit plans. After 1976, the number of defined benefit plans began to increase again, but by 1981, the number of annual net new plans was still only two-thirds that for 1973.[10]

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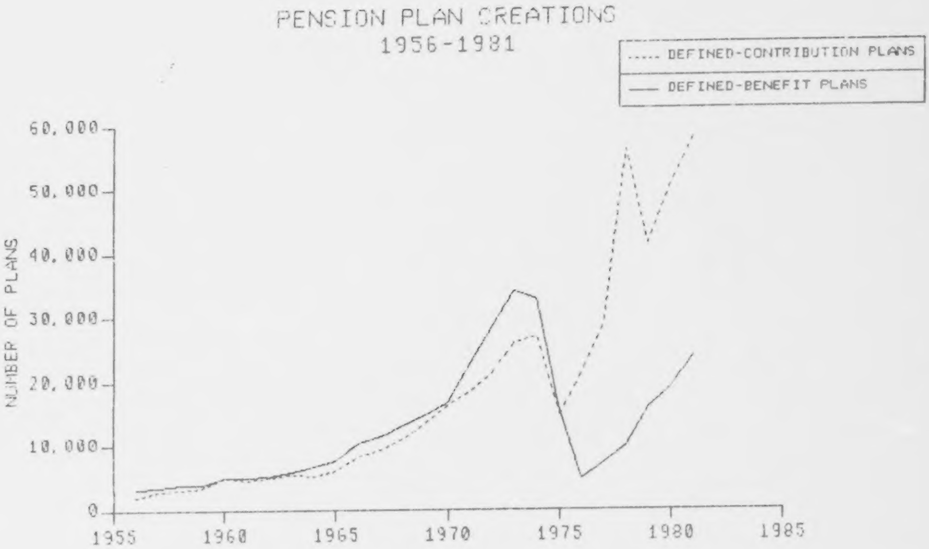
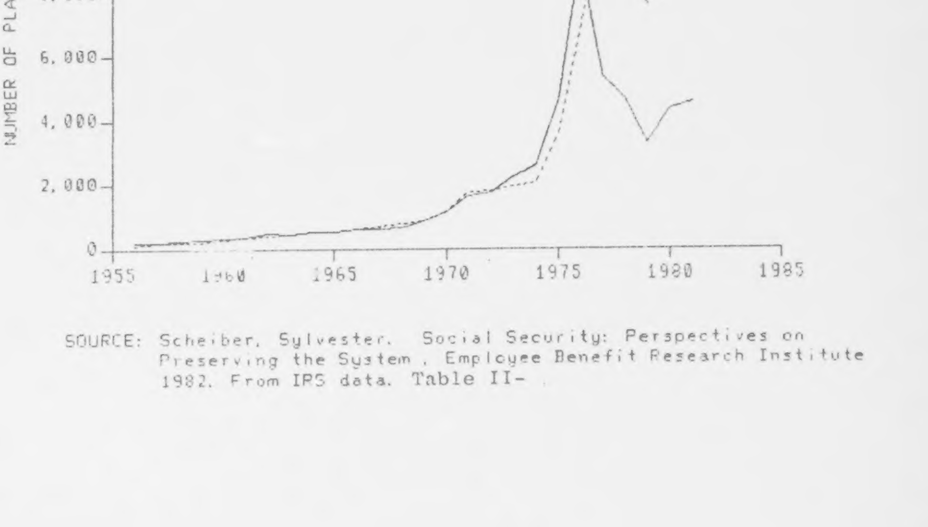
[10] Schieber, Sylvester J. Social Security: Perspective on Preserving the System. Washington, D.C. Employee Benefit Research Institute, 1982. table II-2.

CHART 3



SOURCE: Scheiber, Sylvester. Social Security: Perspectives on Preserving the System, Employee Benefit Research Institute 1982. From IRS data. Table II-2.

CHART 4



SOURCE: Scheiber, Sylvester. Social Security: Perspectives on Preserving the System, Employee Benefit Research Institute 1982. From IRS data. Table II-

Defined contribution plans were also affected by ERISA, but only briefly. In the years immediately following the enactment of ERISA, the rate of defined contribution plan terminations rose dramatically, tripling by 1977. Plan creations, however, declined only in 1975 and 1976.[11] Overall, the enactment of ERISA has encouraged the development of defined contribution plans since these plans are not required to pay premiums to the Pension Benefit Guaranty Corporation nor to meet ERISA's funding standards. Since 1978, defined contribution plans have been created at double their pre-ERISA rate.

Not all of the post-ERISA increase in plan terminations resulted from the enactment of the law. In part, the increase was a continuation of a long-term trend of rising termination rates. Annual plan terminations rose gradually from under 300 in the 1950's to more than 2,000 by 1970, accelerating thereafter to reach nearly 5,000 by 1974.[12] A continuation of this trend, however, would only account for half of the actual post-ERISA plan terminations. Part of the increase in plan terminations could also be attributed to the occurrence in 1974 and 1975 of the most serious economic recession since World War II. It is unclear, then, how much of an impact ERISA actually had on plan terminations.

Several studies of terminating pension plans have helped to clarify the relationship between the enactment of ERISA and the increase in plan terminations. In general, these studies found the effects of ERISA to be much less severe than the previously cited statistics would indicate. Terminating plans were found to be largely small plans that did not meet the act's minimum vesting and participation standards. While ERISA may have been a major factor in many of the plan terminations, it was not the most significant factor. In many cases, the sponsor terminated one plan only to place its participants in another plan. Where participants were not transferred to another plan, in most cases they either received or were scheduled to receive all of their vested benefits.[13]

While ERISA may have had some impact on the development of pension plans in the short term, much of this impact resulted in a shift in emphasis in plan creations from defined benefit plans to defined contribution plans. It is clear from 1981 IRS figures that the overall growth rate for private pension plans has now exceeded pre-ERISA levels. In 1981, over 68,000 net total plans were created. In addition, while growth in pension plans was slowed by ERISA, the limitation of this impact to small plans has meant that pension coverage of the work force has remained unchanged since ERISA. In short, there is no strong evidence that ERISA is having a lasting effect on the growth in private pension plans or on pension coverage of the work force. The pension industry appears now to have adjusted successfully to the new law.

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[11] Ibid., table II-2.

[12] Ibid., table II-2.

[13] Pension Benefit Guaranty Corporation. Analysis of Single Employer Defined Benefit Terminations, 1975. (March 1976). Pension Benefit Guaranty Corporation. Annual Report. (June 1975). Pension Benefit Guaranty Corporation. Analysis of Single Employer Defined Benefit Plan Terminations, 1978. (May 1981).

U.S. General Accounting Office. Effect of the Employment Retirement Income Security Act on the Termination of Single Employer Defined Benefit Pension Plans. Report No. HRD-78-90, Apr. 27, 1978. Washington, 1978.

U.S. General Accounting Office. Effects of the Employee Retirement Income Security Act on Pension Plans with Fewer Than 100 Participants. Report No. HRD-79-56, Apr. 16, 1979. Washington, 1979.

D. POST-ERISA PENSION DEVELOPMENTS

1. Multiemployer Plans

One of the most difficult post-ERISA issues has emerged around the problem of providing plan termination insurance for multiemployer plans. These are plans which cover employees of a number of employers usually within a single craft or industry, such as trucking, construction, retail foods, or printing. The plans are created and maintained under collective bargaining agreements negotiated between a union and employers. Frequently, employers' contribution rates are determined in the collective bargaining process, but benefits paid to pensioners are defined separately by the plan's trustees. Plans are not permitted to defer funding or reduce benefits, leaving contributing employers with the choice of making sufficient contributions to meet benefit obligations or withdrawing from the plan.

In recent years, many industries with multiemployer plans have been experiencing declining employment and high rates of business failure. As a result, the funding obligations for remaining employers has been increasing substantially in some plans. When ERISA was passed in 1974, it was feared that inclusion of multiemployer plans in the plan termination insurance guarantees would enable ailing plans to immediately shift their pension burden to the Pension Benefit Guaranty Corporation (PBGC). A later PBGC study raised concern that automatic inclusion of multiemployer plans in the provisions of title IV of the act could result in the PBGC having to fund as much as $4 billion in benefits if multiemployer plans failed.[14] Although multiemployer plans were required to pay premiums from the start, insurance of benefits was delayed under the act until January 1978. In the interim, ERISA gave the Pension Benefit Guaranty Corporation (PBGC) discretion to cover terminations on a case-by-case basis. This was intended to allow the PBGC to gain some experience with multiemployer plans before termination insurance coverage became mandatory. Mandatory coverage of benefits was then postponed several more times, until it finally became effective in August 1980.

In the meantime, studies conducted by the PBGC of multiemployer plan liabilities and terminations began to document unique problems of funding and liability among multiemployer pension plans. Under the original law, employers were able to withdraw from a multiemployer plan without obligations to the plan. If employees had earned vested benefits which had not been funded by the employer, that liability was spread among the remaining employers. In industries with a declining number of employers, these increased pension liabilities raised costs for remaining employers. In addition, where plans had given past service credits to employees for service before the employer entered the plan, failures or withdrawals of a large number of these employers left plans with large unfunded liabilities. Where increases in employers contributions or cuts in employee benefits were intolerable, termination of the entire plan became a likely alternative.

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[14] Pension Benefit Guaranty Corporation. Potential Multiemployer Plan Liabilities Under Title IV of ERISA. Sept. 29, 1977.

PBGC found that there were financial incentives for employers to withdraw from plans or for plans to terminate when there where large unfunded liabilities. Under the law, withdrawing employers had limited liability. If the employer withdrew and the multiemployer plan continued to operate for 5 years, the employer could dump its entire liability for its employees' benefits on the plan. If the plan folded within 5 years, the employer could be liable for up to 30 percent of his net worth, but in some cases this amount was less than the employer's obligation under the plan.

(A) MULTIEMPLOYER PENSION PLAN AMENDMENTS ACT OF 1980 (MPPAA)

As the date for implementing plan termination insurance coverage of multiemployer plan benefits drew nearer, it became clear that the incentives for employer withdrawal and plan termination needed to be reduced, and the funding of the PBGC improved.

PBGC had reported in 1977, that 1 in 10 multiemployer pension plans had a high potential for plan termination because of extreme financial hardship.[15] The PBGC's 1977 report had also called for an increase in the multiemployer premium rate to assure adequate reserves in the plan termination insurance fund when mandatory guarantees for multiemployer plans went into effect. In 1979, PBGC submitted specific recommendations to Congress for revising the multiemployer plan termination insurance provisions. These recommendations became the basis for the Multiemployer Pension Plan Amendments Act of 1980 (Public Law 96-364) which was signed into law in September 1980.

The 1980 amendments sought to remove incentives for withdrawal, and protect remaining contributors, by requiring that an employer withdrawing from a multiemployer plan continue to fund his fair share of the plan's total unfunded vested liability. The withdrawal liability is payable in annual installments for a period of up to 20 years.

In addition, the 1980 amendments made changes in the pension benefit insurance program to bolster ailing multiemployer plans. First, the definition of an "insurable event" was changed from plan termination to plan insolvency. Thus, the PBGC was required to provide financial assistance to insolvent multiemployer plans to enable the plans to pay benefits. Second, employers in certain financially troubled plans were protected from large increases in contributions. These plans, termed "plans in reorganization" were required to meet a minimum contribution requirement (MCR) which generally increased their funding obligations. The MCR is phased in to prevent an excessive increase in 1 year, and is reduced if the plan is "overburdened" with a high proportion of retirees. Third, trustees of financially troubled multiemployer plans were permitted to reduce or eliminate benefit increases that had been in effect for less than 5 years.

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[15] Ibid.

Finally, the 1980 amendments attempted to insulate the PBGC from the cost of excessive multiemployer terminations by raising the annual per participant premium paid by multiemployer plans and specifying a limited benefit guarantee level for these plans. Retirees or those participants within 3 years of retirement were assured full guarantee of their pension benefits. For others, the PBGC guaranteed 100 percent of the first $5 of monthly benefits per year of service, plus 75 percent of the next $15 of monthly benefits per year of service.

(B) REACTION TO MPPAA

The 1980 amendments met with almost immediate opposition from employers contributing to multiemployer pension plans. Most of this opposition focused on the withdrawal liability provision in the act which held employers totally liable for their share of benefit obligations under the plan. Employers objected, stating that since they agree only to contributions they make to the plan and not to benefit levels, they should not be liable for the plan's benefit obligations. Because benefit levels are beyond the control of the employer, it is often possible for large unfunded liabilities to develop on an employer's account in the multiemployer plan amounting to a substantial portion of the employer's net worth. In addition, because the liability under the act was triggered by the employer's withdrawal from the plan, rather than the termination of the plan, companies might be prevented from selling or even in some cases moving their business. Employers maintain that a withdrawal liability which can equal or exceed net worth also reduces the ability of the employer to borrow money and therefore, increases the likelihood of employer insolvency and withdrawal.

Problems with multiemployer plan withdrawal liability received little attention in the 97th Congress. The Labor Subcommittee of the Senate Committee on Labor and Human Resources held 2 days of hearings—March 11 and 17, 1982—on S. 1748, a bill to redefine most multiemployer pension plans as fixed contribution plans, thereby exempting them from the ERISA withdrawal liability and plan termination provisions. But no further action was taken on this bill. Another aspect of this problem which received only brief attention at the end of the 97th Congress was the retroactive application of MPPAA. MPPAA's effective date is April 28, 1980, the date of the Senate Finance Committee markup on a bill extending prior law, even though MPPAA itself was enacted on September 26, 1980. More than 100 lawsuits have been filed challenging MPPAA's retroactivity. Toward the end of the session a bill was introduced (S. 2860) to apply withdrawal liability only to employers withdrawing from a multiemployer plan after September 25, 1980. A similar provision was later added on a miscellaneous tax bill (H.R. 4577) which was reported from the Committee on Finance in November, but was never enacted. Most of the activity on this issue is still confined to the courts.

2. Simplification and Revision of ERISA

The complexity of ERISA and the extensiveness of the regulatory control it imposes have led to several efforts to clarify the act, consolidate administration, simplify reporting and disclosure procedures, and loosen restrictions on plan sponsors.

(A) REORGANIZATION PLAN NO. 4 (1978)

Initial problems of overlapping jurisdictions between the Departments of Treasury and Labor and the PBGC led to complaints of redundant and excessive paperwork, backlogs of unprocessed applications for administrative exemptions from prohibited transactions, and delays in the issuance of regulations. In 1978, in response to these complaints, President Carter issued reorganization plan No. 4 which eliminated much of the jurisdictional overlap resulting from ERISA. The plan assigned responsibility for each major provision of ERISA to one agency. As a result, there was a substantial reduction in the paperwork burden, processing of applications for exemptions was improved, and cooperative agreements between Labor and Treasury were begun to improve coordination of the field activities of these agencies.

(B) S. 1541—THE RETIREMENT INCENTIVES AND ADMINISTRATION SIMPLIFICATION ACT OF 1981

Legislation was introduced in 1979—the ERISA Improvements Act of 1979—which was intended to simplify and clarify ERISA and certain tax code provisions, and to consolidate administration and enforcement of ERISA. This legislation was reviewed in several committee hearings and reported favorably from the Senate Committee on Labor and Human Resources, but never called up on the floor.

Representative Erlenborn, who had introduced the ERISA simplification bill in the House in 1979, introduced a similar bill in July 1981, known as the Retirement Income Incentives and Administrative Simplification Act (H.R. 4330), later introduced in the Senate as S. 1541, by Senator Nickles. This bill was intended to consolidate and simplify the laws and administration relating to employee benefit plans, and provide incentives for expansion of coverage and benefits under private pension plans and increased retirement savings.

Many of the changes in ERISA included in this bill were intended to reduce the burden on employers, particularly small businesses, imposed by compliance with ERISA, in order to increase the incentives for plan development. Several of ERISA's reporting and disclosure requirements were to be revised to reduce employer costs. In addition, the fiduciary restrictions in ERISA which prohibited certain kinds of plan transactions were to be loosened to eliminate perceived barriers to plan expansion and increase employer incentives for plan development.

Other changes in ERISA were aimed at restricting the participation and vesting standards for beneficiaries, changing integration rules, and otherwise modifying rules governing the payment of benefits.

Finally, proposed changes in the plan termination insurance program were aimed at encouraging plan continuation and containing program costs by placing single-employer termination insurance on a comparable basis with multiemployer insurance. Provisions would have both limited the event which triggers payment of termination insurance and changed the employers liability in the event insurance was paid. These provisions would also have stiffened minimum funding standards and minimum contribution requirements for plan sponsors.

The bill was referred in the Senate to the Committee on Labor and Human Resources, where it was the subject of 4 days of hearings in November 1981 and January 1982. No further action was taken on it in the Senate.

3. TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 (TEFRA)

(A) BACKGROUND

Congress made the most far-reaching changes in the tax provisions affecting employee benefit plans since the enactment of ERISA as part of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). These changes included reducing the amount of tax deductible contributions that may be made to corporate pension plans and eliminating the distinctions between corporate and noncorporate plans.

The changes had their roots in a measure introduced on May 19, 1982, by Representative Rangel (H.R. 6410—"The Pension Equity Tax Act of 1982"). The measure generally was supported by the Treasury Department and pension rights groups, but met with near unanimous opposition from the pension plan industry. Although the bill was intended primarily to eliminate the incentives for professional service corporations (e.g., doctors, lawyers, architects) to form small pensions with excessive pension accumulations for the principals, critics charged that it would significantly disrupt larger corporate plans as well. They protested that the bill would reduce retirement income for many employees, not merely the highly paid.

Interest in changing corporate pension rules developed quickly in 1982, as part of an effort to increase revenues in the Federal budget. As a result, the issues did not fully emerge during the consideration of this legislation. In general, the focus on professional service corporations arose from concern that the indexing of contribution/benefit limits in corporate pension plans was encouraging professionals to incorporate to take advantage of the greater tax deductible pension accumulations permitted in corporate plans than in Keogh plans for the self-employed. Largely anecdotal evidence indicated that some professional service corporations were making maximum contributions to pension plans to get a tax shelter and then allowing the principals to borrow out the contributions to finance current consumption. In addition, there was concern that the less restrictive vesting and participation requirements for corporate plans in ERISA were permitting principals in professional service corporations to prevent their employees from vesting in pension benefits, or even, in some cases, incorporating their employees separately with different employee benefits and then hiring their services back.

In general, the motivation for the pension provisions in TEFRA was to eliminate the pension tax incentives for incorporating, and to eliminate opportunities in pension tax law to voluntarily shelter income in excess of that reasonably needed for retirement purposes.

The Ways and Means Committee held a hearing on H.R. 6410 on June 10, 1982, but did not mark up or report out the bill. Although a bill was not introduced in the Senate, the Committee on Finance included similar pension provisions in the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). This measure, which passed the Senate on July 22, 1982, eliminated or modified some of the features that were opposed by the pension industry. However, the measure approved by the conference committee (H. Rept. 97-760) made several changes, including the addition of special rules for plans that primarily benefit an employer's key employees ("top heavy" plans).

(B) PROVISIONS

(1) Limits on Contributions and Benefits

The Tax Equity and Fiscal Responsibility Act of 1982 made several changes in the overall limits on pension plan contributions and benefits. The maximum dollar limits on pension contributions and benefits were reduced. The maximum dollar limit on annual additions under defined contribution plans was changed from the lesser of 25 percent of compensation or $45,475, to the lesser of 25 percent of compensation or $30,000. The maximum dollar limit on the annual benefit payable under defined benefit plans was changed from the lesser of 100 percent of compensation or $136,425, to the lesser of 100 percent of compensation or $90,000. If retirement benefits under a defined benefit plan begin before age 62, the $90,000 limitation is reduced so that it is the actuarial equivalent of an annual benefit of $90,000 beginning at age 62. However, it will not be less than $75,000 at age 55. These limits are frozen until 1986, when automatic adjustments for price inflation are to resume. Reductions were made in the overall limits allowable in a case where an individual is covered by both a defined benefit plan and a defined contribution plan. Transitional rules will insure that benefits already earned under existing plans are not reduced because of the lower contribution and benefit limits.

(2) Parity Between Corporate and Noncorporate Plans

The Tax Equity and Fiscal Responsibility Act established parity between corporate and noncorporate plans. Special rules for Keogh plans for the self-employed were repealed to place them on equal footing with corporate plans, including the $30,000 contribution and $90,000 benefit limitations.

(3) Top Heavy Rules

Stricter rules were established for so-called "top heavy" plans. A top heavy plan is defined as a plan under which more than 60 percent of the accrued benefits (or contributions) are provided for key employees. A key employee is defined as an officer, a 5-percent owner, a 1-percent owner with compensation in excess of $150,000, or the employees owning the 10 largest interests in the employer.

Special requirements for top heavy plans include accelerated vesting schedules and a minimum benefit. Full vesting will be required after 3 years' service, or, alternatively, graded vesting beginning with 20 percent after 2 years' service increasing by 20 percent each year so that 100 percent vesting is attained at the end of 6 years' service. The minimum benefit required of a top heavy plan will be 2 percent of pay multiplied by the employee's years of service (not to exceed 20 percent) in a defined benefit plan. A contribution of 3 percent of pay will be required in a defined contribution plan, or if less, the highest contribution rate for any key employee.

(4) Pension Integration

With regard to integration of defined contribution plans with social security, the credit for all such plans—corporate and noncorporate—will be reduced from 7 percent to the statutory OASDI tax rate, currently 5.4 percent.

(5) Loans to Participants

Generally, loans from a tax-qualified or governmental pension plan will be treated for Federal income tax purposes as a plan distribution to the extent the loan exceeds prescribed limits. All loans up to $10,000, plus those loans up to $50,000 that do not exceed half of the present value of an employee's vested benefits, will not be treated as a distribution provided that the terms of the loans call for repayment within 5 years. If a loan is in connection with a principal residence of the participant or a family member, however, it will not be subject to the 5-year repayment rule; instead, a "reasonable" repayment schedule will be allowed.

(6) Other Changes

Other employee benefit changes include a limit on the Federal estate tax exclusion for employer-provided benefits paid from qualified plans to $100,000 for deaths occurring after December 31, 1982. (The exclusion was previously unlimited.) The act also requires income tax to be withheld from all taxable pensions and annuities including lump-sum distributions—unless the recipient elects not to have taxes withheld. This election would remain in effect until the recipient revoked it. However, starting in 1983, a payor will have to provide recipients with annual notice of their rights to make, renew, or revoke an election.

4. Regulatory Action

(A) SUSPENSION OF BENEFIT RULES

ERISA generally requires pension plans to provide that participants' benefits become vested, or nonforfeitable, within certain periods of time. There is an exception to this general vesting rule of ERISA, which allows pension plans, under specified circumstances, to suspend the payment of pension benefits to a retiree if the retiree engages in certain kinds of work. For a single employer plan, benefits may be suspended only if the retiree is reemployed by the employer under whose plan the benefits are being paid. In the case of a multiemployer plan, suspension is permitted when the employee is reemployed in the same industry, in the same trade or craft, and in the same geographic area covered by the plan.

In 1981, the Department of Labor published final regulations specifying the conditions under which a retiree would be considered "employed," for suspension of benefits purposes. It also set limits on the amount of the benefit payments which may be suspended. These revised regulations allow the retiree to work up to 40 hours per month without suffering a loss of benefits, and benefits could only be suspended for months in which the retiree worked 40 hours or more. The regulation applies to work beyond the plan's normal retirement age, which is usually age 65. It does not prohibit suspension of benefits to early retirees, as long as full, actuarial benefits are payable when the early retiree attains the normal retirement age.

In its regulatory impact analysis, the Department of Labor estimated that as many as 40,000 to 66,000 people age 65 and over might return to work on a part-time basis as a result of the new rules, potentially earning as much as $330 million a year to supplement retirement income and adding to the productivity of the country as a whole.

(B) PENSION FUND INVESTMENT

It has been suggested that pension funds are prohibited by the Employee Retirement Income Security Act (ERISA) from investing in residential mortgages. This not the case. Rather, the ERISA law contains technical barriers which may have impeded the flow of pension investments into residential housing. This comes at a time when the housing industry is in a severe depression due largely to high interest rates and a shortage of residential mortgage money. Pension funds, with assets in excess of $560 billion, are viewed as a prime source of investment capital. The Department of Labor, which is responsible for overseeing pension fund investment practices, has attempted to remove technical obstacles through various administrative actions.

In May 1982, the Department of Labor made final a class exemption from the prohibited transaction provisions of ERISA that would allow employee pension benefit plans to make or purchase mortgages for new single-family residential dwelling units. At the same time, the Labor Department issued final regulations on the definition of plan assets and proposed amendments to the class exemption on mortgage pool investment trusts.

While these administrative remedies should greatly facilitate pension fund investments in residential mortgages, critics charge they do not go far enough. Legislative proposals have been introduced to remove all technical barriers while at the same time attempting to ensure that pension funds continue to be invested prudently and in the best interests of plan participants and beneficiaries.

In December 1982, the Department of Labor announced plans to exempt most major banks, insurance companies, and investment advisers from the prohibited transactions provisions of ERISA. The proposed exemption, while not specifically directed toward mortgages, would allow qualified asset managers of employee benefit plans to engage in sales, loans, leases, extensions of credit, and exchanges of property with so-called "parties-in-interest" without violating ERISA's prohibited transaction rules. Labor Secretary Raymond J. Donovan said that the new proposal will allow independent qualified pension fund managers greater flexibility to invest assets under their control, while maintaining essential safeguards.

E. CURRENT ISSUES IN PRIVATE PENSIONS

1. Pension Coverage and Adequacy

In February 1981, the President's Commission on Pension Policy issued its final report on retirement income problems and policy recommendations, entitled "Coming of Age: Toward a National Retirement Income Policy." A major set of the Commission's recommendations dealt with strengthening employee pensions. In its final report and technical appendixes, the Commission presented a comprehensive review of the characteristics and problems of employee pensions and pension income. The Commission emphasized the disparity between expectations that private pensions should become the major private source of retirement income in the future and the reality that relatively few retirees today receive pension income.

> In spite of the importance of employee pension programs to the economic security of the retired, only a relatively small proportion of retired actually receive income from employee pensions. In 1978, about one-fourth of the retired population age 65 and over received employee pension income. This reflects the fact that many workers either work for employers who do not have pension plans or leave employment before gaining entitlement to pension benefits.

The Commission focused particularly on problems with pension coverage, inadequacy of pension benefits, lack of coordination with other income programs, erosion of benefits due to inflation, and gaps in pension protection for women.

(A) COVERAGE

The President's Commission paid particular attention to the problems of workers who are not covered by private pension plans.

> The most serious problem facing our retirement system today is the lack of pension coverage among private sector workers. Only about 45 percent of the private sector work force participates in an employee pension plan, although it is likely that a number of those not covered may eventually be covered.

A portion of those workers not covered by a pension plan have labor force participation patterns that make it difficult to establish pension coverage. Controversy over the Pension Commission's estimates of pension coverage revolved around this question of what kinds of workers should be expected to be covered by a pension.

ERISA's minimum standard for eligibility specifies workers 25 years of age or older, employed by a firm for a year, and working at least 1,000 hours in 12 months. Even when the population that should be covered was reduced to the minimum ERISA standard, only 70 percent of these workers were found to be participating in a pension plan. And the prospects that this gap in coverage might be closed in the near future were found to be poor.

Although the creation of new pension plans has continued at a high rate during the 1970's, pension coverage of the work force has slowed to a virtual standstill. Pension coverage in firms with more than 1,000 employees is nearly complete. The bulk of the noncovered population is now employed in small firms. Nearly four out of every five noncovered workers are employed in firms with fewer than 100 employees.

Small employers have difficulty including pension benefits in the compensation package because they are most likely to have little margin for increased labor expenses, to have a labor force that turns over more frequently, and to have, on average, a short lifespan. Defined contribution plans, IRA's, and other vehicles which limit employer liability can help meet the needs of this work force. But adequate pension coverage in small businesses is likely to remain a problem in the near future.

In addition, industries where pension coverage has grown most rapidly are industries which are expected to employ a declining share of the labor force in the future. The industries which now account for the largest proportion of noncovered workers will grow.

Forecasts of future pension coverage, however, have been the subject of considerable controversy. The President's Commission used assumptions of restrained growth in pension plans, and it concluded that pension coverage and vesting would not increase significantly in the future under current policies. Others have criticized the no-growth assumptions of the President's Commission, and using moderate growth assumptions, have forecast that coverage and vesting will continue to increase in the future. Today only two-fifths of all families with a member between 65 and 68 years of age receive any income from employer pensions. However, under moderate growth assumptions this proportion could double by the turn of the century.

The receipt of a pension is often the difference between a marginal retirement income and an adequate one. The voluntary nature of private pension plans and the quite unpredictable patterns of employment, both in kind and duration, make the future coverage and benefit results of private pension plans difficult to predict. A paper prepared by the Employee Benefit Research Institute (EBRI) predicts that plan participation rates will rise in the future as employment growth slows down and the number of workers qualifying for coverage rises with the maturing of the "baby boom" generation. Moreover, the proportion of workers expected to receive pension benefits may increase dramatically by the turn of the century according to a study prepared for the American Council of Life Insurance. The study estimates that pension benefit receipt will increase from just over the 40-percent level in 1979, to nearly 80 percent by the year 2004.

(B) VESTING AND PORTABILITY

Even if a worker participates in a pension plan, there are no guarantees that he or she will ever receive retirement benefits from that plan. Barriers to the receipt of benefits result from restrictive vesting requirements and obstacles to the portability of accrued pension benefits or service credits.

Most plan participants today (89 percent) are covered by plans which have "cliff" vesting—with no partial vesting in the first 10 years and full vesting after 10 years.[16] Workers who change jobs frequently stand to lose all rights to pension benefits because of a failure to vest fully in any pension plan. While the minimum ERISA vesting standard adopted by most plans is 10 years of service, the average worker over 25 years of age changes jobs every 6 years, if male, and every 3.7 years if female.

Even if the mobile worker successfully vests in his or her pension plan, the adequacy of future benefits from the plan can be severely reduced if the worker leaves the firm in midcareer. Benefits provided under defined benefit plans are usually left behind when the worker changes employers. The worker's benefits, which are often paid on the basis of his 3 or 5 highest years of earnings, decline in real value once years of service are no longer credited to the plan. As a result, workers who change jobs during their careers, even though they may receive pension benefits from multiple sources, are frequently penalized for mobility.

Even with moderate growth in pension coverage in the future, problems of vesting and portability are expected to restrict any improvement in the adequacy of initial pension benefits. A recent study by ICF, Inc., indicates that despite a projected doubling in the proportion of families eligible to receive pension benefits after the turn of the century, the average benefit received is not projected to increase significantly in real terms.[17]

(C) INFLATION PROTECTION

Even when pension benefits are adequate at the time of retirement, they quickly decline in real value once the worker retires. Automatic cost-of-living adjustments (COLA's) are generally absent from private sector plans. A recently completed survey by Hay Associates shows that only about 8 percent of the participants in private sector plans are covered by provisions granting full COLA's. A more common practice among private plan sponsors is to make ad hoc increases of retiree's annuities. These increases are generally less than the full CPI, averaging about 3 percent per year. (Most workers, however, are covered by social security and would receive full COLA's to these benefits.)

With no inflation protection, a 10-percent rate of inflation cuts the purchasing power of a retirement benefit in half in only 7 years. A Labor Department study determined that even with ad hoc inflation adjustments, the real value of private pension benefits decreased at an average rate of 4 to 8 percent a year in the early 1970's.[18]

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[16] U.S. Dept. of Labor. Bureau of Labor Statistics. Employee Benefits in Industry 1980. Bulletin No. 2107, September 1981. Table 33.

[17] Schieber and George. Retirement Income Opportunities in an Aging America, pp. 24-26.

The fact that roughly 30 to 40 percent of the income of the elderly is not inflation-proof underscores the fragile position of this group and helps explain the rising rate of poverty among them.

(D) GAPS IN PENSION PROTECTION FOR WOMEN

The President's Commission emphasized two areas where women particularly experience problems in gaining adequate pension protection. First, women in the work force typically have lower rates of coverage than men.

> Many women are employed in low-wage industries and in occupations with little or no employee pension coverage. Even when they have jobs covered by a plan, their interrupted work patterns make it difficult for them to gain entitlement to pension benefits. Few receive service credits for the years in which they work less than 1,000 hours.

Second, women who are spouses of covered workers experience gaps in pension protection when widowed or divorced.

> Employee pensions are often terminated upon the death of the worker, leaving the surviving spouse unprotected. Moreover, retiring workers may choose a form of benefit that provides no protection for survivors. And, under current law, the right to a pension can evaporate if the worker dies before retirement.
>
> These problems are most severe for the homemaker who subsequently divorces. While homemakers themselves may accumulate little retirement income, they share in the retirement income earned by the spouses. This is not the case for divorced homemakers. In many instances, they have accumulated little or no retirement income during their years of marriage, and sufficient pension credits cannot be built up before retirement.

(E) RECOMMENDATIONS OF THE PRESIDENT'S COMMISSION

The major recommendation of the President's Commission on Pension Policy was to establish a mandatory universal pension system (MUPS) for all workers. The MUPS would be funded by employer contributions which would, at a minimum, equal 3 percent of payroll. All employees meeting ERISA standards for eligibility (i.e., age 25, and 1 year of service) would be participants with immediate vesting of benefits. All current pension plans not meeting the MUPS minimum standard would have to be supplemented to meet these standards. The MUPS benefit would be supplemental to social security benefits, and would be portable. A special portability clearinghouse would be established to maintain benefit records. In addition, employers could elect to send their contributions to a central MUPS portability fund which would invest the funds. Costs to employers would be offset by a 46-percent tax credit on contributions up to 3 percent of payroll.

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[18] Horst, Robert L., Jr., and Donald E. Wise. Private Pension Benefit and the Rate of Inflation. Math Tech, Inc., May 1979.

In addition, the Commission recommended pension plans exceeding the MUPS minimum voluntarily shorten vesting periods from the ERISA standard of 100 percent vesting in 10 years. Portability should be encouraged by supporting greater use of IRA's for rolling over accrued pension benefits.

The Commission further recommended making postretirement joint and survivor benefits mandatory unless waived by both spouses, providing automatic preretirement survivor coverage in certain circumstances, and divisible pension entitlement in the case of separation or divorce.

The Commission recommended revising ERISA to permit voluntary adjustments in normal retirement ages in public and private pension plans in tandem with changes in the age of eligibility for full social security benefits.

(F) RECOMMENDATIONS OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT

The privately sponsored Committee for Economic Development released a report in September 1981, entitled "Reforming Retirement Policies." Their recommendations served as a counterpoint to the recommendations for mandatory pension coverage advanced by the President's Commission. Taking a more optimistic view of the future development of private pensions, the Committee of Economic Development suggested that employer pensions could be improved and coverage expanded primarily through the use of tax and regulatory incentives. The committee concluded that:

> A Government mandate for private-employer pensions is neither necessary nor feasible. Nevetheless, changes in the tax law would make it more attractive for more employers to establish pension plans.
>
> Employee contributions to both private and Government pension plans should be tax deductible, and pension benefits should be included in taxable income when received. This will encourage the growth of employer pension plans in all industries, thereby enlarging this channel for saving and investment.
>
> Employers should have maximum flexibility in setting their own pension and retirement policies. They should be able to raise, gradually and voluntarily, the normal retirement ages in their pension plans, consistent with whatever changes are made in the social security retirement age. This and the preceding proposal will encourage more workers and employers to contribute to employer pension plans that can be tailored to the specific needs of their industrial and occupational structures.
>
> To encourage greater portability of vested pension benefits, an employee leaving an employer is now allowed to continue in that employer's plan and ultimately to receive retirement benefits from it. As an alternative, the employer could be permitted to offer the employee leaving the pension plan the option of transferring vested benefits into

an individual retirement account (IRA) or life insurance annuity. This may be an especially attractive option when the pension plan is fully funded. Where the plan is not fully funded, a difficult problem exists with respect to providing equal treatment for those leaving and those remaining in the plan. All cash withdrawals of over $500 should be forbidden.

The Federal Government should take action to require all public-employer pension plans to accurately report their unfunded liabilities, as well as their normal total annual cost, to the general public in a manner similar to the Financial Accounting Standards Board's requirement that private-employer plans accurately report unfunded liabilities.

2. FINANCING OF SINGLE EMPLOYER TERMINATION INSURANCE

The federally chartered program to insure private pension benefits faces serious challenges during the 98th Congress. Troubled with rising deficits, the Pension Benefit Guaranty Corporation (PBGC) believes it will be necessary to more than double insurance premiums and close off what it has categorized as program "loopholes." PBGC has requested that Congress approve a premium hike from the present $2.60 per covered worker up to $6. Moreover, it plans to submit comprehensive legislation to hold employers fully liable for pension commitments. Presently, solvent employers who terminate a plan with insufficient assets are liable to PBGC only for up to 30 percent of their net worth. This sum often is significantly smaller than their funding obligation to the plan. Thus, incentives exist to companies to terminate the pension plan and transfer their unfunded liabilities to PBGC and the insurance program.

While the size of PBGC's insurance claims has risen materially, it is possible that even larger claims will be incurred in the future. In order to ascertain its exposure, the PBGC reviewed the total, unfunded liability of pension plans as reported in corporate annual reports. This survey showed that corporations with the 50 largest unfunded vested liabilities had unfunded liabilities of approximately $15 billion. The smaller unfunded liabilities of other publicly traded firms totaled another $5 billion. Furthermore, the PBGC has followed the course of financially troubled firms with large unfunded plans. Based on their review, 34 such firms have been identified with an estimated $4.4 billion of unfunded vested liabilities. It remains to be seen what effect these potential claims will have on premium rates and the level of benefits that PBGC will be able to guarantee.

3. ERISA ENFORCEMENT

The Department of Labor's pension plan enforcement policies and procedures were sharply criticized in a joint Office of Inspector General-Labor Management Services Administration task force report. The 10-member task force, coordinated by John Walsh, a former FBI agent and staff member for the Senate Permanent Investigations Subcommittee, concluded that the Department's enforcement policy under the Employee Retirement Income Security Act (ERISA) should be reviewed and restated. ERISA enforcement has been controversial since the law was passed and has been the subject of several congressional hearings.

Many of the report's criticisms focused on the role of the Department's Solicitor's Office in ERISA situations. The report charged that the Solicitor's Office has more influence setting ERISA enforcement policy than the Office of Pension and Welfare Benefits Program (PWBP). Moreover, the Solicitor's Office occasionally has intervened unilaterally in active investigations, the report charged, and has negotiated settlements without consultation with PWBP. "Until recently the relationship between PWBP and [the Solicitor of Labor] has been adversarial," the report said. Among the other conclusions of the task force were that nonsupervisory investigatory staff is "grossly undersized," criminal investigations are discouraged, and few cases are litigated. The working relationship between PWBP and Labor Management Standards Enforcement is "poor," according to the report. The relationship between PWBP and the Internal Revenue Service is "proper but distant," and "practically nonexistent" with the Office of the Inspector General.

4. REGULATORY BURDEN

In the eighth year of the regulation of private pension plans under ERISA, there is continuing concern that the regulatory burden on some employers is too great, and that administration and enforcement of ERISA is inefficient and ineffective.

(A) REPORTING AND DISCLOSURE PROVISION

The reporting and disclosure provisions of ERISA have been the most frequently criticized of ERISA's requirements. These provisions are seen as imposing a considerable paperwork burden and cost on the employer, with relatively little gain to the employee in added benefit protection. It has been estimated, on the basis of a study of a small number of plans, that the costs to employers of preparing and filing one of ERISA's forms (the form 5500 ERISA annual report) may exceed $50 million.[19] The purpose of the reporting and disclosure requirements of ERISA is to provide the information needed by the Government to enforce the law, to provide information for research on pension issues, and to provide information to plan participants and beneficiaries. Yet there is evidence that the administering agencies have not adequately processed and maintained the information, nor have they effectively monitored the plans. In addition, little has been done to make the information available to researchers. In some cases, funding for the production of statistical reports has been curtailed. Finally, some critics maintain that the plan beneficiaries and participants show little interest in the information which is provided to them.

The Vice President's Task Force on Regulatory Reform has been analyzing regulations, including those under ERISA, to determine the effect of these regulations on small businesses. In addition, an in-house task force at the Department of Labor is reviewing all of the ERISA reporting and disclosure requirements. The administration's stated objective is to reduce unnecessary paperwork.

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[19] A 1978 study by Arthur Anderson & Co., indicated that for 48 large companies the cost of filing the 5500 forms was $9 million per year.

A number of actions were taken during 1982 which were of particular relief to small employers. These include:

—Optional filing of form 5500-R by small plans.
—Clarification of payroll deductions for IRA's.
—Simplification of the summary annual report (SAR).
—Deferred filing date for summary plan description (SPD).
—Eliminated and reduced information on the annual report.
—Eliminated the plan description form filing.
—Shortened and improved the actuarial report.
—Shortened the annual report form for small plans.
—Exempted certain small welfare plans from all reporting; and
—Exempted small pension and welfare plans from the requirement to engage an accountant.

(B) PROHIBITED TRANSACTIONS

ERISA currently prohibits most transactions between a plan and a "party-in-interest" (i.e., a fiduciary, contributing employer, employee organization, or service provider). ERISA also prohibits a fiduciary from acting on behalf of a plan when they have interests which conflict with the interests of the plan. These provisions are intended to prevent potentially abusive situations from occurring. Anyone who wants to engage in a prohibited transaction must be granted a specific exemption by the Department of Labor. The Department of Labor, however, may also grant "class exemptions."

Those who are concerned about the prohibited transaction provision argue that the provisions are so broad that they obstruct routine transactions where there is no conflict of interest. It raises the likelihood that large plans will engage inadvertently in prohibited transactions, and further complicates the day-to-day fiduciary activities of the plans. The current procedure for obtaining individual exemptions from the Department of Labor is cumbersome and time consuming, although improvements have recently been made in the time elapsed in issuing exemption decisions. Another objection to the prohibited transactions provision is that it prevents small businesses from using any of its resources tied up in pension assets for capital improvements.

Some of the suggested changes in prohibited transactions would require legislation. The Nickles-Erlenborn bill, for example, would have allowed transactions between the plan and "parties-in-interest" as long as there was "adequate consideration" (e.g., fair market compensation). The administration, however, has not endorsed the "adequate consideration" standard because it would require that the Department of Labor expend substantial resources enforcing the standard on an after-the-fact basis.

Instead, the administration has proposed issuing administrative "class exemptions" to exempt transactions which would not endanger plan assets.

F. PUBLIC EMPLOYEE PENSION PLANS

1. CIVIL SERVICE RETIREMENT

The civil service retirement system (CSRS) is emerging as both a target for cost control in Federal Government and as a focus for reform initiatives in retirement income programs. Cost control concerns result from the fact that the system's expenditures are largely funded by annual general revenue appropriations and are projected to rise rapidly. It is becoming evident that the Government is paying higher costs per participant to operate the CSRS than a typical private employer pays for social security and private pension coverage. Because of concerns about CSRS costs and pressures on the Federal budget in future years, and also because of the growing awareness of the gaps in coverage experienced by a large proportion of Federal employees in the current retirement system, there is renewed interest in overhauling the civil service retirement system.

(A) CSRS FINANCING AND COSTS

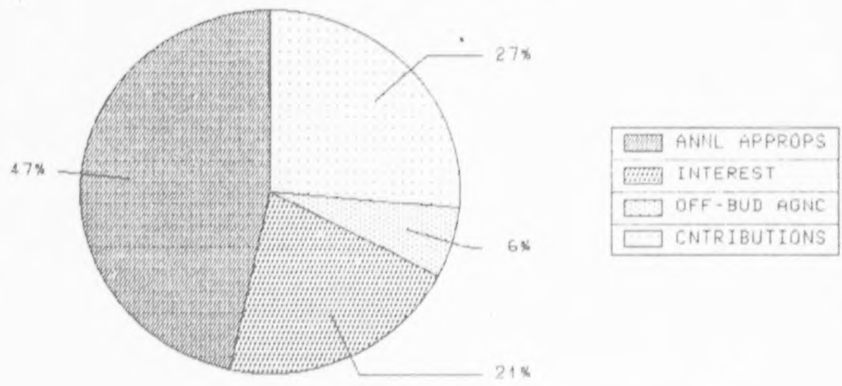
In May 1981, the Congressional Budget Office released a study entitled "Civil Service Retirement: Financing and Costs"; which evaluated the financial condition of the system and its costs to the Government. The study concluded that financial solvency was not really at issue with CSRS because annual appropriations from the general fund, which now finance roughly half of the system, will continue to be used to keep the system on a sound financial footing in the future. However, the cost of the CSRS to the Federal Government is at issue. Although there is no precise standard for comparing CSRS benefits and Federal costs, with private-sector benefit and pay practices, Government costs for the Federal retirement system may be seen as excessive.

The civil service retirement system now covers 2.7 million active Federal civilian workers. In addition, there are currently about 1.8 million annuitants drawing retirement, disability, or survivor's benefits. From 1981 through 1986, over 500,000 new retirees are expected to begin drawing benefits. Total outlays, which rose from about $3 billion a year in 1970, to almost $15 billion a year in 1980, are expected to double before 1986. Two-thirds of this $15 billion increase in annual outlays is expected to result from automatic cost-of-living increases.

Although CSRS appears to follow an objective of advance funding of benefits, because the account is included with the Federal budget with all reserves invested in Federal financial instruments, CSRS is actually funded on a pay-as-you-go basis, with a trust fund account set up to receive income and pay benefits. Although the availability of general funds to the system make a large trust fund reserve unnecessary, the CSRS trust fund as of 1980 had about 5 years' outlays on hand ($73.6 billion). The fund is expected to remain solvent throughout the next half century with sufficient reserves to pay at least 1 year's outlays. The bulk of the CSRS trust fund has come almost entirely from general fund appropriations, $59.7 billion in the last decade alone. Without the general fund appropriations of the last decade, the CSRS fund would have been exhausted in 1982.

Employee and employer contributions to the CSRS provide relatively little of its total funding. While employees annually contribute 7 percent of payroll to civil service retirement matched by a 7-percent contribution from the employing agency's budget, these contributions together currently provide only 26.5 percent of the total income to the system. Contributions to CSRS from agencies that are off-budget (e.g., the U.S. Postal Service) provide only 6.2 percent of its income. Another 20.7 percent comes from interest on trust fund balances. The remaining 46.5 percent of the income to CSRS comes from general fund appropriations.

CHART 5



SOURCE OF INCOME TO THE CSR TRUST FUND

Source: Congressional Budget Office, Civil Service Retirement: Financing and Costs, May 1981, table 1.

The role of general fund appropriations is expected to increase over the next decade. According to estimates from the Office of Personnel Management (OPM), general fund appropriations will grow in real terms (1980 dollars) from $6.7 billion in 1980, to $11.2 billion in 1990, resulting in an increase in the proportion of CSRS income coming from these appropriations of from 46 to 62 percent. The total cost of CSRS to the Government is expected to rise in real terms from $9.6 billion in 1980, to $13.6 billion by 1990, and $20.2 billion by 2030. Today the Government (not including off-budget agencies) picks up about two-thirds of the tab for the Federal retirement program; in 50 years the Government is expected to be picking up three-quarters of this cost.

These projections of rising Federal costs for CSRS benefits reinforce pressures for changes in the system. CBO concluded in its study of the system:

Although Federal employees contribute more toward their retirement program than they would under a private plan combined with social security, CSRS annuitants receive greater benefits. From this point of view, CSRS's costs to Government are excessive.

If Federal white-collar employees, as a group, were covered by a representative private plan plus social security, the Federal cost (as a level percent of payroll) could range between 21 and 23 percent. This cost would be 2 to 7 percent of pay lower than the cost of current CSRS provisions, depending on the particular method, data, and assumptions used in the comparison.

If the costs to the Federal Government of the CSRS system are regarded as excessive, there are only two ways to decrease them—either reduce benefit levels, or increase employee contributions.

(B) COST-OF-LIVING ADJUSTMENTS TO FEDERAL RETIREMENT BENEFITS

The most apparent target for benefit changes in CSRS to reduce Government expenditures has been the automatic cost-of-living adjustment (COLA) to Federal retirement benefits. Congress first authorized the automatic COLA in civil service annuities in 1962, a full decade before indexing was authorized for social security. The early method of indexing CSRS annuities provided an annual adjustment of annuities equal to the annual increase in the CPI whenever that increase exceeded 3 percent.

Over the next decade provisions for indexing CSRS annuities were revised three times to improve the responsiveness of the annuity to inflation. In 1965, the time between the onset of inflation and the adjustment of the annuity was lessened by triggering the COLA on a monthly rather than an annual basis. As a result of the change, a COLA was made whenever the CPI was for 3 consecutive months at least 3 percent over the CPI for the month on which the previous increase was based. In 1969, a fixed "1-percent kicker" was added to the amount of the COLA to compensate for the timelag between inflation and the actual payment of a higher annuity. In 1973, the Congress sought to eliminate sharp differences in initial benefits resulting from differences in retirement dates by providing persons retiring the higher of two alternative calculations as an initial annuity—the so-called "look-back" provision.

Beginning in 1976, Congress began to reverse the liberalizing trend in the CSRS COLA. First, in 1976, Congress repealed the 1-percent add-on because it was found to overcompensate retirees for inflation. To compensate retirees for the loss in future annuities from elimination of the "1-percent kicker," however, Congress replaced the triggered COLA with a regular semiannual COLA which went into effect regardless of the rate of inflation.

Increasingly conscious of the effect of COLA's on the budget, the House and Senate Budget Committees began in 1979 to anticipate savings from changes in the COLA for Federal retirees. Both elimination of the "look-back" and annual COLA's were considered but dropped in the fiscal year 1980 budget process. Both changes were again considered in the fiscal year 1981 budget process. This time, however, Congress replaced the "look-back" with a proration of the COLA for initial annuities in the Budget Reconciliation Act of 1980.

A change to paying annual Federal (civil service and military retirement) COLA's was raised again as an issue in 1981. The justification for semiannual COLA's has been that frequent adjustments of annuities are needed to keep pace with inflation. While the amount of the annuity in the end is no different whether it is adjusted once or twice a year, the timelag between inflation and adjustment is lessened with the semiannual COLA. As a result there is a smaller loss in the purchasing power of the annuity than there would be with an annual COLA. For many Federal retirees and survivors with low annuities, adequate inflation protection is essential to maintain an already low standard of living. According to OPM, there are over 200,000 annuitants who receive less than $200 a month and a half million who receive less than $500 a month. Further, the fact that inflation protection is better for Federal retirees than for social security or private pensioners is defended on the grounds that Federal wages tend to be lower, and that the Federal Government should set the standard for providing inflation protection in retirement income.

Cost-of-living adjustments to Federal civil service retirement annuities are, however, a major factor behind rising Government costs in the CSR system. Indexing will account for more than 60 percent of the added costs to the system over the next 5 years. The cost of indexing is financed almost entirely from general tax dollars. In 1980, while indexation added $1.3 billion in costs to the system, increased employee contributions added only $200 million in revenues. And at a time when real wages are declining and automatic annual indexing in all programs is being challenged, the semiannual indexing unique to Federal retirement programs was an obvious first target.

Both the Carter and the Reagan fiscal year 1982 budget requests included savings in the CSR system based on annualization of the COLA. The Congress included this change in the Omnibus Budget Reconciliation Act of 1981. (Public Law 97-35) passed by both Houses on July 31, and signed into law August 13.

As a result, beginning in 1982, Federal civil service and military retirees began receiving a single annual COLA, effective March 1 of every year, equal to the change in the CPI over the previous 12-month period ended December 31. This change in the law retained the concept of a full and automatic adjustment for inflation and did not reduce the amount of the annuity check once it was adjusted. It did, however, create a longer period between adjustments, resulting in a significant cash-flow savings for the Federal Government estimated to be about $500 million in the civil service retirement fund alone in fiscal year 1982.

Again in 1982, the cost-of-living adjustment became a major target for savings in the budget. As part of the Omnibus Budget Reconciliation Act of 1982 (Public Law 97-253), the Congress enacted the first substantial reductions in the COLA for Federal civilian and military retirees.

The COLA provisions enacted by the Congress distinguish between Federal retirees who are younger than 62 years of age and those who are 62 and older. Federal civilian and military retirees 62 years of age and older, and Federal survivor and disability annuitants will receive a full COLA based on the increase in the CPI in all 3 years. Federal civilian and military retirees who are under 62 years of age will receive partial COLA's in each year. The partial COLA will in no case be lower than half of the inflation rate written into the law (6.6 percent in 1983, 7.2 percent in 1984, and 6.6 percent in 1985). If the actual inflation rate exceeds the legislated rate, the COLA will be increased to reflect 100 percent of the difference. The table below provides an example of the COLA's that could be made to the benefits of retirees under 62 in 1983.

Examples of 1983 COLA's for Federal retirees under age 62—In percent

CPI increase:	*COLA*
3	3.3
4	3.3
5	3.3
6	3.3
7	3.7
8	4.7
9	5.7

The full COLA will be paid to 90 percent of the civil service annuitants, and over 60 percent of the military annuitants. Approximately 195,000 civil service retirees and 860,000 military retirees will receive partial COLA's

In addition to the partial COLA reduction, payment of all COLA's will be delayed by 1 month in each of the next 3 fiscal years. The last COLA for Federal annuitants was made in March 1982. As a result of this change in the law, the next three COLA's will be made in April 1983, May 1984, and June 1985.

(C) REFORM OF THE CSRS

(1) Issues

There is a growing awareness that the civil service retirement system (CSRS) is not only a costly system to operate, but is also a system which fails to provide adequate retirement income protection for a large portion of the Federal work force. The system is designed to reward career civil servants, and in comparison to private sector retirement systems, has the effect of rewarding those in high pay brackets. As a result, those who leave Federal service before retiring, and those in the lowest pay brackets usually end up with retirement benefits that are lower than those they might receive through a combination of social security and private pension. Ninety percent of the Federal work force is covered by the CSRS. Yet, one-fourth of the Federal employees will receive two-thirds of the benefits paid by the CSRS.[20] Half of the Federal workers who leave Government before retirement will receive no Federal pension benefits. These workers will have also sacrificed social security coverage for their years of employment with the Federal Government.

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[20] U.S. Congress. Senate. Committee on Governmental Affairs. Subcommittee on Civil Services, Post Office, and General Services. Restructuring the Civil Service Retirement System; Analysis of Options To Control Costs and Maintain Retirement Income Security. Committee Print, 97th Cong., 1st Sess. U.S. Govt. Print. Off., 1982.

Problems with CSRS retirement benefits stem from four features of the current system. First, there is a complete lack of pension portability. Employees must have 5 years of service to become vested. Those who withdraw before 5 years receive no credit in any pension system for those years of service. They receive only their own contributions back with no interest. This compares poorly with workers in the private sector who carry with them social security credits for their years of service in any covered employment. Employees who vest in their Federal pension but leave Federal service prior to retirement receive no preretirement inflation adjustment in their benefits. This results from the fact that benefits are paid as a fixed proportion of unadjusted final (high 3 years) pay.

A second feature of the current system, which also penalizes workers who leave before retirement, is the formula for determining benefits. This formula pays benefits at a higher rate of earnings after an employee has been in Federal service for 10 years. As a result, 30- to 40-year career workers receive a higher proportion of their final pay in benefits than do 5- to 10-year (short stay) workers. Those who vest but only remain in Federal employment for 10 years receive relatively little retirement income in relation to their final pay.

A third feature of the current system tends to favor more highly paid workers. This occurs because of the absence of any weighting in the benefit formula to pay greater proportions of earnings to workers with lower earnings. Instead, the benefit paid for a given combination of years of service and age is a fixed proportion of final pay. Thus a worker retiring at 65, after 40 years of service, receives 72 percent of his final pay as a benefit whether his final pay was high or low. It is generally acknowledged, however, that to maintain their preretirement standard of living, lower income workers need a higher proportion of their earnings than do higher income workers. And it is common for private sector workers with low earnings to receive a higher proportional replacement of preretirement earnings from social security and their pension than workers with high earnings.

A fourth feature of the system provides a tremendous incentive to early retirement, and has the effect of diverting a disproportionate share of the benefits paid to those who retire before age 65. This feature is the payment of full pension benefits at age 55 with 30 years or more of service. By contrast, both private pension plans and social security base their benefits on retirement at age 65. Social security does not pay benefits to workers before age 62, and between age 62 and 65, monthly benefits are reduced to account for the greater number of years they will be drawing benefits. This "actuarial reduction" under social security is designed to assure that people who retire early do not end up receiving more in lifetime benefits than people who retire at age 65. It also helps to assure that social security's costs remain the same regardless of the age at which individuals choose to retire. In a similar fashion, private pension plans often have some reduction in monthly benefits for workers who retire early, although this is frequently less than an actuarial reduction. CSRS, which allows early retirees with long years of service to draw full pension benefits for life, pays high costs for this feature, because a large portion of the Federal work force retires early. In 1976, nearly half of all male civil service retirements occurred before age 60, compared to less than 10 percent of all male retirements in the private sector.

In effect, these features result in an implicit redistribution of retirement income from those who spend only part of their career in Federal employment to those who stay for a full career, and from those in low-pay classifications to those in high-pay classifications. Those who leave early either forfeit all benefit rights or receive relatively low benefits. On the other hand, those who stay may retire early with full benefits, receiving an implicit subsidy from the leavers. This would be less of a problem if those who left Federal service received credit toward any retirement income for their years in Federal service. But lack of social security coverage effectively denies them the coverage they might otherwise receive in the private sector.

In addition to the gaps in providing retirement income, there are gaps in disability and survivors protection that result if workers move between jobs that are covered under social security and Federal employment. And, in general, disability and survivors protection under CSRS is inferior to that under social security.

(2) S. 2905—The Civil Service Reform Act of 1982

In response to these weaknesses in the CSRS and to the problem of rising costs, Senator Stevens, chairman of the Subcommittee on Civil Service, Post Office, and General Services of the Senate Committee on Governmental Affairs, requested in September 1981, the assistance of the Congressional Research Service (CRS) in developing options for modifying the current civil service retirement system. A final report prepared by CRS, titled "Restructuring the Civil Service Retirement System: Analysis of Options To Control Costs and Maintain Retirement Income Security," was issued in January 1982. In this report, CRS discussed four major options, and several variations on these options, which can help to control the cost of the CSRS and improve retirement benefits for many of those who now receive inadequate benefits from the system. Most of these options would reduce benefits for early retirees, but to those who continued to work until age 65 it would pay comparable—and perhaps relatively higher—after-tax benefits, than under the present system. In addition, those who have Federal employment would gain, in addition to social security, portable pensions under several of the options discussed.

On September 14, 1982, Senator Stevens introduced S. 2905—"The Civil Service Reform Act of 1982"—to provide a revised retirement plan for new Federal employees. The Stevens bill would have mandatorily covered all Federal and Postal employees hired after the date of enactment, and would have provided current employees the option to elect coverage in the new system. The new plan provided workers a three-tiered retirement system comparable to plans offered in private employment. The first tier of the new system was social security. New employees would have paid contributions to social security similar to those paid by current employees to the current civil service retirement system. These contributions were to be matched by the Government as employer. The second tier was to be a defined contribution plan. The Government would have contributed to an employee's account 9 percent of the first $20,000 (indexed) in pay and 16 percent for every dollar thereafter. There would have been no employee contributions to this plan. The third tier was to be a voluntary thrift plan. The employee could have contributed any amount to this plan. The Government would have matched the employees contribution up to 3 percent of salary. Employees would have vested in the new plan after 5 years of participation, allowing them to leave the Government with the entire amount in the retirement account. Alternatively, the employee could have left the account untouched after leaving Federal service, and it would have continued to draw interest until retirement. Initially, all employee accounts would have been invested within the budget in Government securities. Eventually, S. 2905 called for investing employee funds in the private market. S. 2905 would have also funded the entire unfunded liability of the current civil service retirement fund over a 40-year period.

The major advantages of the Stevens plan for Federal employees were the greater portability and the employer contributions made to individual employee accounts. These features would enable a person leaving Government service to take with them not only social security credits, but also an average 14 percent of salary Government contribution in a retirement account with preretirement inflation protection. In addition, this "up-front" contribution by the Government would have transformed, for a part of the total pension, the political risk inherent in the current CSRS ("will future obligations of the Government be met by Congresses of the future?") into a financial risk ("how rapidly will the retirement account grow compared to inflation?). This element of financial risk also appeared to be a disadvantage of the program for some. At the end of the 97th Congress, Senator Stevens announced his intention not to pursue passage of his legislation until a majority of those affected by the proposal supported it.

(3) Recommendations of the National Commission on Social Security Reform

With the social security financing problems growing more urgent, the interest in covering new Federal hires under social security increased. On January 15, 1983, the National Commission on Social Security Reform sent its recommendations for solving social security's financing problems to the President and the Congress. These recommendations were quickly endorsed by the President, the Speaker of the House, and the Senate Majority Leader. Included in the recommendations was a proposal to extend social security coverage to new Federal hires (and all Members of Congress, the President, and the Vice President—under the provision as written in S. 1—the implementing legislation). This coverage would be effective for anyone hired after January 1, 1984. The National Commission also alluded to the need to cover new employees with a supplemental employer-provided pension plan.

(4) Fiscal Year 1984 Budget Proposals

Reform of the civil service retirement system, already developing as one of the major issues facing the 98th Congress, was raised again as part of the President's fiscal year 1984 budget proposals. These proposals, sent to the Congress in the first week of February, call for six changes in the current civil service retirement system:

(1) *Actuarial reduction in benefits for early retirement.*—Currently civil service employees may retire as early as age 55 with 30 years' service. This proposal would reduce benefits by 5 percent for each year of retirement before age 65.

(2) *COLA freeze.*—The 1984 cost-of-living adjustment would not be paid.

(3) *Increase in the employee contribution rate.*—The current rate is 7 percent of salary. The proposal would increase employee deductions to 9 percent in 1984 and 11 percent in 1985.

(4) *Increase in employer contributions.*—Would increase in tandem the employer contribution rate for the District of Columbia and the U.S. Postal Service.

(5) *Switch from computation of annuities based on high 3 to high 5 earnings.*—The current formula provides a retirement benefit equal to a proportion of the employee's highest 3 years of earnings. The proposal would extend this period to the highest 5 years.

(6) *Modify replacement rates.*—Would reduce the ratio between retirement benefits and preretirement earnings through a change in the computation formula.

2. STATE AND LOCAL PUBLIC EMPLOYEE PENSION PLANS

State and local pension plans were intentionally not covered under ERISA in 1974, yet many of them face financing difficulties due to the existence of large unfunded liabilities, and many offer less protection for participants' benefits than do private plans covered under ERISA. Two bills were introduced in the Senate in 1982 (S. 2105 and S. 2106) to address some of the problems with State and local pension plans. Most State and local officials, however, have opposed Federal regulation of their pension plans. The problems remain a focus of concern in the retirement income field.

(A) CHARACTERISTICS OF STATE AND LOCAL PLANS

The early development of State and local public employee plans predates the emergence of private pension plans. By the end of the 19th century, many large cities had pension plans covering groups of policemen, firemen, and teachers. Over 12 percent of the largest plans in current operation were in place before 1930. The number of public plans began to increase rapidly just before the enactment of social security and continued increasing until optional social security coverage was afforded State and local employees in 1950. Almost half of the largest State and local plans were established before 1950. Since then, the growth has been strongest for small public pension plans. Nearly two-thirds of the small plans have come into existence since 1950; a fourth of the small plans developed by 1975 were created in the 1970's.

In the last few decades there has also been a tendency for small plans to consolidate into larger plans. Over 40 percent of the larger State and local plans have increased their size by absorbing new employee groups. Over one-fifth of all plan absorptions completed by 1975 occurred in the first 5 years of the 1970's.

Currently, there are more than 6,000 State and local government pension plans with about 9 million active participants and 2.4 million eligible beneficiaries. These plans have assets of over $200 billion and pay out over $13 billion a year in benefits. These plans cover nearly all State and local government workers—but there remain 1 to 2 million public employees without pension coverage. Most of the plans are small plans, with over 80 percent of the plans having fewer than 100 active members. The largest plans, however, cover the bulk of the active participants. In 1975, there were 390 plans with 1,000 or more active members. While these large plans were only 6 percent of the total number of plans, they covered about 95 percent of the active membership of State and local government plans. Most covered employees (82 percent) participate in defined benefit plans exclusively. Another 16 percent participate in a combination defined-benefit/defined-contribution plan. More than four out of five participating employees were required to make employee contributions to their plans.[21]

Unlike Federal employees, State and local government employees are usually covered under social security in addition to their public pension plan. Since 1950, it has been possible for States to enter into voluntary agreements with the Secretary of Health and Human Services to provide social security coverage for their employees. As of 1975, over 70 percent of all State and local government employees were covered under social security. After coverage has been in effect for 5 years, State and local governments may also terminate social security coverage for a group of employees by giving notice 2 years in advance. Once coverage has been withdrawn, it can never be reinstated for that group. In recent years, several State and local governments have chosen to terminate coverage for groups of their employees. Between 1958 and 1979, States filed notices to terminate social security coverage for 1,112 State and local groups. Over half of those requests were filed between 1976 and 1979. Of the 1,112 requests, 700 terminations had become final by 1979 affecting about 130,000 employees, or 1 percent of the employees covered by social security.[22]

(B) ISSUES

When the Employee Retirement Income Security Act (ERISA) was enacted in 1974, the Congress intentionally excluded Government retirement systems from the major provisions of the act to provide additional time for determining whether there was a need for Federal regulation of these plans. However, public pension plans were required to continue to comply with pre-ERISA requirements in the Internal Revenue Code which placed specific limitations on benefits and contributions, set participation standards to insure that such plans will not discriminate in favor of highly compensated employees, and required that funds be managed for the exclusive benefit of the plan participants and beneficiaries. (It should be noted that these code requirements are generally not enforced by IRS.) ERISA did include a requirement (section 3301) that several committees of the House and Senate establish a joint task force to study several aspects of Government pension plans—adequacy of levels of participation, vesting and financing arrangements, and existing fiduciary standards—and to report on the possible need for Federal legislation and standards. The pension task force report on public employee retirement systems, issued on March 15, 1978, by the House Education and Labor Committee, concluded that in a number of areas State and local public employee pension plans were deficient.

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[21] U.S. Congress. House. Committee on Education and Labor. Pension Task Force Report on Public Employee Retirement Systems. Committee Print, 95th Cong., 2d Sess. Washington, U.S. Govt. Print. Off. 1978.

[22] U.S. Congress. Senate. Special Committee on Aging. State and Local Government Terminations of Social Security Coverage. Committee Print, 95th Cong., 2d Sess. Washington, U.S. Govt. Print. Off., 1978.

(1) Regulatory and Statutory Confusion

The pension task force noted that there is variation and uncertainty in the regulatory and statutory provisions governing State and local pension plans, and in the interpretation and enforcement of these provisions. There is considerable confusion over how the Internal Revenue Code affects public employee pensions, particularly the sections relating to nondiscrimination and plan qualification requirements. The task force found that it was unclear how these provisions applied to public pensions. Theoretically, public pensions should be tax qualified to enjoy the same tax advantages as private plans, yet many public plans benefiting from these tax provisions are not.

(2) Participation, Vesting, and Portability

The task force found that most public plans met ERISA's minimum participation and benefit accrual standards. However, fully 70 percent of the plans, covering one-fifth of the employees, did not meet ERISA's minimum vesting requirements.

Social security was found to be the best portability protection for public employees, and the only protection other than vesting of the pension for employees who changed from public to private sector jobs. However, most employees (82 percent) had some means for transporting pension credits to other government jobs within the same State, and 13 percent of the employees had a means for transporting pension credits to government employment outside the State.

(3) Reporting and Disclosure

One of the most serious problems identified by the pension task force was the lack of adequate reporting and disclosure of plan information to plan participants, public officials, and taxpayers.

The task force found that: Public employee retirement systems (PERS) at all levels of government are not operated in accordance with the generally accepted financial and accounting procedures applicable to private pension plans and other important financial enterprises. The potential for abuse is great due to the lack of independent and external reviews of the operations of many plans.

(4) Funding

Another serious problem noted by the task force was the failure to adequately fund government pension plans to pay promised benefits. Plan participants, plan sponsors, and the general public were largely unaware of true plan costs. As a result, States and localities were failing to collect and make sufficient contributions.

The task force found that: The high degree of pension cost blindness which pervades the PERS is due to the lack of actuarial valuations, the use of unrealistic actuarial assumptions, and the general absence of actuarial standards.

While most plans had accumulated substantial funding reserves, the costs of pensions as a percentage of payroll were rising because of the lack of adequate funding practices. According to the task force, 75 percent of the plans using actuarial funding methods were understating the costs, and 40 percent of the total Federal, State, and local pension plans failed to meet the minimum funding test of pension experts. Almost 17 percent of the plans were funded on a pay-as-you-go basis—many of these in fiscally distressed cities or smaller cities and counties. These localities had no real assurances that their tax base in the future would be able to support the benefits promised.

(5) Benefit Reductions and Losses

The task force found that plan terminations and insolvencies were rare, but that when plans did become insolvent or terminated, participants could suffer temporary or even permanent benefit losses.

The evidence shows that public employees do face the risk of pension benefit reductions or other benefit curtailments due to reasons other than plan termination. For example, 8 percent of the pension plans at the Federal, State, and local levels covering 18 percent of the employees have been amended to reduce the value of past or future pension benefit accruals for active employees, while other plans have scaled back certain plan features for new employees only.

It appears that the greatest risk to public employees of having pension benefits reduced or other benefit features curtailed relates to governmental financial problems and the underfunding of public pension plans. Mismanagement, financing limitations, exceedingly high pension obligations, and financial emergencies have all contributed in the past to situations of pension plan insolvency or near-solvency. As a result of these situations, some public employees have suffered temporary and, in a few cases, permanent benefit reductions.

(6) Investment of Pension Funds

The task force found open opportunities for abuse in the management and investment of public plan assets. Some were found to have no statutory guidance at all, others operated under a tangle of conflicting statutes. There was a general absence of uniform standards of conduct.

The task force also found conflict of interest in many instances because of the investment of pension funds in State and local government securities. Restrictive investment practices were also found to have impaired investment returns to pension funds.

(C) FEDERAL RETIREMENT PLANS REPORTING ACT

As an outgrowth of the pension task force report, Congress passed legislation extending the financial and actuarial reporting standards found under ERISA to Federal plans not covered by that act. The 39 plans covered by the Federal Retirement Reporting Act (Public Law 95-595) range in size from the civil service retirement system with 4.6 million participants and beneficiaries, to the plan for the Comptroller General with just 3 participants and beneficiaries. All plans in total cover 5.7 million active participants and 3.3 million former Federal employees and beneficiaries. The net plan assets available to pay benefits amounted to $75.5 billion for all Federal plans at the end of fiscal year 1980.

(D) NATIONAL LEAGUE OF CITIES VERSUS USERY

The Supreme Court's decision in *National League of Cities* v. *Usery* (426 U.S. 833) (1976) is viewed by some analysts as a legal basis arguing against Federal regulation of State and local government pension plans. In the *National League of Cities* case, the Supreme Court held that extending the minimum wage and maximum hour provisions of the Fair Labor Standards Act to State and local government employees, based on the Congress power to regulate interstate commerce under the Commerce clause, was an unconstitutional interference with State sovereignty as reserved to the States under the 10th amendment. The Court recognized that regulation of wages and hours of State employees affects interstate commerce, but held that the Congress authority to regulate activities under the Commerce clause could not be used "to displace the States' freedom to structure integral operations in areas of traditional governmental functions."

The Court reasoned that determining State and local government employees' wages and hours was an attribute of State sovereignty and that these functions were essential to States' separate and independent existence. The latter point was based on an analysis of the effect the Federal legislation would have on State and local government functions. For several reasons (e.g., substantial increase in costs and displacement of State decisions in other areas), the Court felt that the legislation substantially interfered with traditional ways in which State and local governments carried out their internal affairs.

While an early public employee pension reform bill (The Public Service Employee Retirement Income Security Act of 1975, H.R. 9155) contained participation, vesting, and funding requirements, neither of the bills reported by the House Education and Labor Committee in 1982 contained these provisions.

The House Education and Labor Committee report on H.R. 4928 and H.R. 4929 states:

The committee recognizes the importance of preserving and encouraging State and local regulation of public employee pension plans. The decisions of whether or not to establish a pension plan for State and local employees, who should be covered, what standards of eligibility should be met, what benefits are to be paid and whether, and to what extent, these benefits should be funded, are uniquely a part of State and local decisionmaking processes. These are, therefore, not matters addressed by this bill.

(E) PUBLIC EMPLOYEES PENSION PLAN REPORTING AND ACCOUNTABILITY ACT OF 1982 (PEPPRAA)

The proposed Public Employment Pension Plan Reporting and Accountability Act of 1982 (PEPPRAA) (H.R. 4928), as favorably reported by the House Committee on Education and Labor, would have established reporting and disclosure requirements for State and local government pension plans including legal standards for managing and investing fund assets. Although the bill set up certain Federal requirements concerning reporting and disclosure, those requirements would not have applied to plans in States where the Governor certifies that State law contains substantially equivalent provisions. In addition, the reporting requirement generally would not have taken effect for about 5 years, thereby giving States the incentive to make any adjustments in their practices necessary to avoid Federal regulation. Specifically, the legislation would have:

—Required disclosure and reporting to participants and their beneficiaries, State and local taxpayers, employers, employee organizations, and the general public, of financial and other information about such plans.

—Established standards of conduct and responsibility for fiduciaries of public employee pension benefit plans.

—Extended favorable tax treatment to the benefits of participants and their beneficiaries in plans which meet the above reporting, disclosure, and fiduciary standards.

—Exempted plans which meet the above reporting, disclosure, and fiduciary standards from having to meet the present requirements under the Internal Revenue Code relating to plan benefits, contributions, and other section 401(a) conditions for plan qualification.

—Provided under section 501 of the Internal Revenue Code for all public employee pension benefits plans an unconditional exemption from the Federal income tax; and

—Provided for appropriate remedies, sanctions and access to the Federal courts.

H.R. 4929, also favorably reported by the House Committee on Education and Labor, was identical to H.R. 4928, with the exception that it omitted changes to the Internal Revenue Code. Identical Senate bills (S. 2105 and S. 2106) were not reported from the Finance Committee.

Opponents believe that pension reforms should be made by State and local governments themselves on the basis of local needs and priorities. They point to considerable progress made over the past few years by State and local governments in reforming their own retirement systems. About half of the States have formed task forces or commissions to study and recommend reforms of their State and local government pension plans. Some of the States which have recently reformed and/or consolidated retirement programs in their own States include California, Florida, North Carolina, Wisconsin, Texas, Maryland, Idaho, and Rhode Island.

While most public employee unions, retiree, and taxpayer groups support the legislation, most State and local government organizations oppose it.

G. RAILROAD RETIREMENT SYSTEM

1. Overview

The railroad retirement system (RRS) is a federally legislated retirement system covering employees in the railroad industry, with benefits and financing partially intertwined with the social security program. Credits toward benefits are secured primarily by employment in the railroad industry, although employees also receive credit for earnings covered by social security. Benefits are financed through a combination of employee and employer payments to a trust fund, with the exception of dual or so-called "windfall benefits," which are financed from general revenues out of a separate account. About 1 million Americans receive benefits from the railroad retirement system, and payments to these beneficiaries are estimated to reach $5.7 billion in fiscal year 1983.

TABLE 1.—TRUST FUND OPERATIONS, 1975–83

[In millions of dollars]

	Income [1]	Outgo [2]	Trust fund balance [3]
Fiscal year:			
1975			3,950
1976	3,334	3,569	3,715
Transitional quarter	500	1,058	3,157
1977	3,591	3,819	2,929
1978	4,159	4,316	2,773
1979	4,532	4,647	2,658
1980	4,820	5,226	2,252
1981	4,675	5,294	1,986
1982 [4]	5,121	5,328	1,779
1983 [4]	5,493	5,722	1,550

[1] Taxes, interest on investments, appropriations for windfalls.

[2] Net benefits.

[3] End of fiscal year.

[4] Estimated.

Source: Railroad Retirement Board; administration fiscal year 1983 budget.

The railroad retirement system was the subject of congressional attention during the development of the fiscal year 1983 Federal budget. The administration's budget proposal recommended 80-percent funding of railroad retirement dual or so-called "windfall" benefits, and it proposed to dismantle the railroad retirement system, establishing in its place a private so-called "railplan" to administer the industry benefits and making the Social Security Administration responsible for those benefits now paid by the railroad retirement system that are equivalent to social security benefits.

The first concurrent resolution on the fiscal year 1983 budget, however, authorized full funding of windfall benefits and full cost-of-living adjustments for railroad retirement benefits, as a result of an amendment offered by Chairman Heinz. The Senate Budget Committee had moved to limit cost-of-living adjustments and authorize windfall benefit funding at reduced levels. In addition, the Heinz amendment to the budget resolution authorized continued administration of the railroad retirement system by the Railroad Retirement Board by maintaining the RRB's central and field staff positions at fiscal year 1981 levels.

A supplemental appropriation passed over Presidential veto on September 9 (House) and September 10 (Senate) contained $11 million to raise windfall benefits to full levels for the last 2 months of fiscal year 1982. The continuing resolution for fiscal year 1983 appropriated full funding of windfall benefits and specifically maintained staffing of the Railroad Retirement Board.

2. FINANCING PROBLEMS

Like the social security system, the railroad retirement system faces both long-term and immediate short-term financing problems. A package of tax and benefit changes enacted in 1981 was estimated at the time to guarantee adequate revenues for the railroad retirement system to meet its benefit obligations during the decade of the 1980's, using moderate economic assumptions of rail employment. Instead, it became apparent by late 1982 that rail employment had fallen about 20 percent below projected levels as a result of the depth of the recession, and the projections of rail employment for the remainder of the 1980's are now more pessimistic than any of the most pessimistic assumptions previously used. As a result, the RRB actuary reported in late 1982 that substantial payroll tax increases will be required in 1983 if benefit reductions are to be avoided in fiscal year 1984. In order to understand the financing actions required in 1983, it would be helpful to review in some depth the background to the 1981 financing changes.

3. 1981 CHANGES

(A) BACKGROUND

Over the long term, there has been a steady decline in the number of railroad industry employees relative to beneficiaries. The experience over the last four decades has been a lower worker/beneficiary ratio and lower revenue to the trust fund during a time of increasing demand for payout. The following table shows the number of workers and beneficiaries since 1940:

TABLE 2.—EMPLOYEES IN THE RAILROAD INDUSTRY AND BENEFICIARIES OF THE RAILROAD RETIREMENT SYSTEM SINCE 1940

[In thousands]

	Average employment	Beneficiaries
1940	1,195	173
1945	1,686	210
1950	1,421	461
1955	1,239	704
1960	909	883
1965	753	930
1970	640	1,052
1975	548	1,094
1976	540	1,100
1977	545	1,107
1978	542	1,100
1979	554	1,093
1980	531	1,084
1981	505	[2] 999
1982	[1] 446	[3] 988

[1] January through October 1982

[2] July 1981

[3] July 1982

This longer term financing problem was aggravated in the short term by two other factors. First, the payroll tax rates have been below what was needed to match benefit expenditures. Second, congressional appropriations for the so-called "windfall" benefits have been far below the amounts required to pay those benefits, and the difference was paid out of the trust fund.

Traditionally, because rail management and labor are affected by Federal decisions in railroad retirement, both have been given leading roles in the development of solutions to problems arising in the program. Over the last 3 years, representatives of management and labor have sought agreement for placing the system on a sound financial basis. In 1981, representatives of rail management and labor produced a package of changes designed to resolve the short- and long-term financing problems of the railroad retirement system. Legislation embodying these changes is contained in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), and in the Economic Recovery Tax Act of 1981 (Public Law 97-34).

The basic changes included creation of a separate dual benefit payment account for so-called "windfall" benefits; some basic benefit modifications and some benefit liberalizations; payroll tax increases and limited general revenue borrowing authority.

(B) 1981 CHANGES IN WINDFALL BENEFITS

The background for this so-called "windfall" benefit is very technical. As a result of financial coordination of the two systems in 1951, each railroad annuity had a social security component built into it. But, if an individual qualified for two separate retirement benefits, one under social security and one under railroad retirement, the combined benefits for work under social security were higher than the individual would have received if he or she had worked exclusively under social security. This placed a financial drain on the railroad retirement system, which was on the verge of bankruptcy in 1974. Nearly 40 percent of all railroad beneficiaries qualified for social security at that time.

In 1974, Congress changed the law so that no one in the future would earn the right to dual social security and railroad retirement benefits, by coordinating the benefit structures of the social security and railroad retirement programs. The railroad benefit is now divided into two parts. The first part (tier I) is basically a social security benefit based on railroad earnings and social security earnings. This part of the railroad benefit is reduced by any social security benefit for which the individual is eligible. The second part of the railroad benefit (tier II) is an annuity based only on railroad service. Together, the two parts give the worker credit for all work under social security and railroad. But the tier I component, plus any social security benefits earned, should produce a combined benefit for social security equal to what the individual would have received if all his or her earnings were covered under the Social Security Act.

However, to protect the rights of those who had been working under the old law, Congress provided for a special, transitional third part of the railroad benefit only for those who qualified for both social security and railroad retirement benefits before the change in law. This third part is the so-called "windfall" benefit.

Under the 1974 act, the railroad trust fund was to be reimbursed from the General Treasury on a level payment basis for these windfall payments. Benefit payments were expected to be higher than reimbursements in the early years of the level payment schedule and then lower in later years, as the number of eligible beneficiaries declined. The practical effect, however, was that the congressional appropriations were too small to fully reimburse the trust fund for current windfall payments, which drew down the railroad trust fund by the unreimbursed amount. For fiscal year 1981, the Railroad Retirement Board (RRB) received less than it said it needed for so-called windfall benefit payments because OMB proposed legislation placing a cap of $350 million on windfall appropriations.

What the Omnibus Budget Reconciliation Act of 1981 did is remove the obligation to pay these windfall benefits from the main RRS fund, by creating a separate dual benefit payment (windfall) account. This change eliminated a major cause of erosion of the reserves of the railroad retirement account, but it also made payment of windfall benefits totally dependent on the specific annual appropriation by Congress.

On October 1, 1981 (the beginning of the new fiscal year), the Railroad Retirement Board, anticipating an annual appropriation at the same level of last year, reduced the so-called windfall portion of railroad retirement benefits by 21 percent. In other words, because the $350 million appropriation amounted to only 79 percent of the $440 million required for full funding, the difference—21 percent—was prorated among all the recipients of the so-called "windfall" benefits. Not all railroad annuitants were affected; only the 389,000 annuitants with coverage under both social security and railroad retirement. The average monthly loss was $20 per beneficiary, reducing the average monthly annuity from $331 to $311.

During its consideration of the continuing resolution, the Senate voted on November 19, 1981, by a vote of 61–34, to restore the $90 million required for full funding of the dual benefits account. The House version of the continuing resolution contained no additional funding, however. The conferees split the difference and added $45 million to this account, providing a funding level of $395 million, or a roughly 10-percent benefit reduction. President Reagan vetoed this continuing resolution.

On December 1, 1981, the Railroad Retirement Board authorized the December checks with no windfall payments, because it was uncertain what the appropriation level would be. In addition, the Railroad Retirement Board had been told by the Office of Management and Budget that the December checks should contain a further 12-percent reduction in windfall benefits, bringing the total planned reduction to 33 percent.

On December 2, 1981, Senator Heinz, chairman of the Special Committee on Aging, sent a letter to OMB Director David Stockman protesting the additional planned cut in these benefits, and Senator Heinz also introduced an amendment to the Defense appropriations bill expressing the sense of the Senate that OMB not impose these further cuts. In the end, the Office of Management and Budget decided to issue a separate mailing of windfall benefit checks dated December 14, 1981, without the additional 12 percent reduction.

On December 11, 1981, the Senate approved a continuing resolution that provided funding of the Government through March 31, 1982. The section on railroad retirement benefits applied a 4-percent spending cut to a $395 million appropriation (the appropriation level in the vetoed continuing resolution), for a funding level of roughly $379 million, and a monthly benefit reduction of 14 to 15 percent, instead of the 21-percent cut imposed in October. In addition, during consideration of the continuing resolution in the House, Representative Silvio Conte, who was managing the bill, pledged that there would be an additional supplemental appropriation for the dual benefits account in February 1982.

Senator Heinz, in a colloquy with Senator Hatfield on December 11, 1981, confirmed that the Senate Appropriations Committee would expeditiously consider such a supplemental appropriation, if it were to come over from the House.

(C) OTHER 1981 BENEFIT CHANGES

The major benefit reduction enacted in the RRS in 1981 is a modification in the cost-of-living adjustment for survivor benefits, which adjusts both the basic tier I benefit and the industry tier II benefit at the same rate as they are adjusted for retirees, i.e., 100 percent of the CPI for tier I and 32.5 percent of the CPI change for tier II. The spouse's benefit is also slightly modified under the Omnibus Budget Reconciliation Act.

Not all the benefit changes were benefit reductions, however. In fact, some benefit liberalizations were also included, which are estimated to cost $23 million in fiscal year 1982 and as much as $171 million by fiscal year 1986. For the first time, benefits are provided to divorced wives, remarried widows, and surviving divorced mothers. These new categories of beneficiaries now receive the same treatment under railroad retirement as they would under social security.

(D) 1981 PAYROLL TAX CHANGES AND BORROWING AUTHORITY

The other major piece of the railroad retirement refinancing proposals is contained in the Economic Recovery Tax Act of 1981, which authorized increased taxes and limited general revenue borrowing authority.

Congress, in line with the recommendation of labor and management, increased the tax on the tier II taxable payroll. For employers, the tax rose from 9.5 percent of taxable payroll to 11.75 percent effective October 1, 1981. Employees, who previously did not contribute for tier II benefits (they did contribute for tier I), now pay 2 percent effective October 1, 1981. The tax increase would add an estimated $512 million to the railroad trust fund in fiscal year 1982, rising to an estimated $712 million by fiscal year 1986.

To further improve the cash-flow situation of the railroad retirement program, the system was given limited authority to borrow money from the General Treasury. The loans, which must be repaid with interest, are really an advance by the Treasury against the sums which the Social Security Administration pays to the railroad retirement system each year in June. Under the so-called financial interchange, social security reimburses railroad retirement for the difference between the additional benefits social security would have had to pay to railroad beneficiaries and the payroll taxes which railroad employees would have paid into social security.

In budget reconciliation, however, this limited borrowing authority was accompanied by a "benefit preservation" feature which has three major parts: (1) The RRB must notify Congress whenever the borrowing authority will exceed 50 percent of the available amount; (2) not later than 180 days after such notice, representatives of rail management and labor must submit refinancing proposals to the President and the Congress; and the President must submit to Congress recommendations for resolving the financing crisis, including a plan to phase out Federal responsibility for the railroad retirement system by covering rail employees and retirees under social security and by requiring the rail industry to assume responsibility for all other remaining components of the pension plan; and (3) not later than 180 days after the "benefit preservation" feature is activated, the RRB must announce the method for allocating reserves in any month in which inadequate funds precludes full payment of benefits, with highest priority given to the payments of social security benefits.

In summary, the railroad refinancing package of 1981 contained four parts: (1) Benefit modifications; (2) payroll tax increases; (3) limited borrowing authority against annual payments due from social security; and (4) creation of a separate account for windfall benefits. The general substance of the benefit modifications (including the separate windfall account) and the limited borrowing authority were accepted by both the House and the Senate in their reconciliation measures. The payroll tax increases and the identical language on limited borrowing authority were included in the Economic Recovery Tax Act of 1981.

At that time, it was believed that if the economy performed at least as well as the so-called intermediate assumptions, the refinancing package would provide an adequate cash flow in the next few years and adequate financing for the remainder of the decade.

In any event, the Omnibus Budget Reconciliation Act of 1981 also contains a provision requiring the President to submit a report to the Congress by October 1982, with recommendations for assuring the long-term financial integrity of the railroad retirement system.

A study released by the Congressional Budget Office (CBO) in December 1981, outlined four options that could be considered in order to alleviate the long-term problems of the system beyond the end of the 1980's:

(1) Reduce early retirement benefits actuarially. Now, career employees with 30 years of service can retire at age 60 without reduced benefits.

(2) Reduce spouse's benefits under the staff component (tier II) of this two-part benefit formula (tier I equals the equivalent of social security, tier II is the staff pension plan). Normally, under private pension plans, workers receive a reduced benefit if they elect to provide benefits to a spouse—which is not the case under railroad retirement.

(3) Tax railroad retirement benefits. Although private pensions are taxable, railroad retirement benefits are tax free.

(4) Merge the social security equivalent (tier I) under the Social Security Administration and discontinue Federal responsibility for tier II benefits, making tier II a fully private plan.

At the end of 1981, therefore, the situation with railroad retirement was this: "Windfall" benefits had been reduced and the appropriation for 1982 was uncertain; the short-term financing problems were considered resolved because of the 1981 package of tax and benefit changes; the longer term problems still had not been fully addressed, and a report by the President was expected.

4. 1982 DEVELOPMENTS

(A) ADMINISTRATION BUDGET PROPOSALS

The President's fiscal year 1983 budget recommended funding for the dual benefits account at $350 million. The Railroad Retirement Board estimates that $430 million would be required for funding at the full level of benefits. Therefore, the administration's proposals would have resulted in a 20-percent reduction in the "windfall" portion of the benefits in fiscal year 1983.

The administration also proposed elimination of the Federal Railroad Retirement Board in fiscal year 1983 and reorganization of the railroad retirement system. The current system has two basic components: A tier I benefit which is equivalent, but not identical, to social security benefits and eligibility; and a tier II benefit, which is a railroad staff pension. The administration proposed to have the social security system absorb benefit payments for the social security equivalent (as well as the payroll taxes paid for tier I benefits by active railroad workers and employers). The railroad staff pension would then be given to a private corporation which would administer the benefits and receive the payroll tax moneys paid into the Treasury for staff (tier II) pensions The defederalized railroad retirement system would start with a $2.2-billion transfer from social security in fiscal year 1982, which would raise the balance in the railroad trust fund to $3.6 billion. The Office of Management and Budget estimated that the fiscal year 1983 effect of this reorganization would reduce the Federal deficit by $248 million. Although all of the details of the reorganization were not made available by the administration, the proposal would exempt all present benefit liabilities assumed by the industry pension corporation from funding standards of the Employee Retirement Income Security Act of 1974 (ERISA).

(B) CONGRESSIONAL RESPONSE

In response to the administration's budget proposal, Chairman Heinz of the Senate Special Committee on Aging wrote President Reagan to express his opposition to the plan to dismantle the Railroad Retirement Board. Senator Heinz urged the President to withdraw the proposal for the following reasons:

(1) In 1981, railroad retirees were the only group to sustain an actual cut in their benefits.

(2) Reductions in benefits would almost inevitably result from the reorganization.

(3) Current pension obligations of the railroad retirement system would be exempt from ERISA standards, thus leaving pensioners and workers without a guarantee that their pensions will continue at legally authorized rates.

(4) Railroad benefits, which are currently tax exempt like social security benefits, would probably become subject to Federal income taxes.

(5) The proposed reorganization would exacerbate social security's current financial and administrative difficulties.

The Senate Budget Committee did not accept the administration's proposal to abolish the Railroad Retirement Board, but it did recommend against paying the July 1982 cost-of-living increase and for limiting future COLA increases to 4 percent each in fiscal years 1983, 1984, and 1985. The Budget Committee also recommended less than full funding of windfall benefits. On May 20, 1982, Senator Heinz and Senator Sasser sponsored an amendment to the first concurrent budget resolution which was accepted by the Senate. The amendment achieved three goals. First, it restored the annual cost-of-living increase for railroad retirees. Second, the amendment provided for full funding of the so-called dual or windfall benefits in fiscal years 1983, 1984, and 1985. Third, the amendment authorized funds to preserve the Railroad Retirement Board's network of field offices at current staffing levels.[23]

Consequently, the first concurrent resolution on the budget did not assume enactment of the administration's legislative proposals.

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[23] Heinz, John. Remarks in the Senate. Congressional Record. Daily Edition. v. 128, May 20, 1982, pp. S55750-55751.

Railroad retirement trust fund outlays are estimated to be $5.7 billion in fiscal year 1983, $6.1 billion in fiscal year 1984, and $6.5 billion in fiscal year 1985.

The supplemental appropriations bill of 1982 (H.R. 6863) passed in December 1982, provided $11 million for dual or "windfall" benefits, in addition to the $379.2 million provided by the fiscal year 1982 continuing resolution. The supplemental appropriation thus restored full "windfall" benefit payments to eligible beneficiaries for the remaining 2 months of fiscal year 1982 (August and September). In addition, the bill contained language specifying that the full-time equivalent staffing level at the Railroad Retirement Board should not be less than the currently authorized level of 1,578.

The fiscal year 1983 continuing resolution provides funding for the railroad retirement system at current operating levels through September 30, 1982. It provides that full payment of dual "windfall" benefits will be continued and that current staffing levels will be maintained.

TABLE 3.—RAILROAD RETIREMENT DUAL BENEFITS

[Outlays in millions]

	Fiscal year—			
	1982	1983	1984	1985
Baseline	$440	$430	$420	$405
Administration budget	350	350	350	350
Fiscal year 1982 continuing resolution plus supplemental appropriation	390.2			
First budget resolution		430	420	405

(C) FINANCING PROBLEMS RESURFACE

The continuing financial difficulties of the railroad retirement system promise to make the system the subject of congressional attention again in 1983.

In late 1982, the Railroad Retirement Board's chief actuary released revised estimates of rail employment which indicate that the financing changes enacted in 1981 will not suffice to finance the current levels of benefits. This is because the recession has resulted in lower employment levels in the rail industry, even lower than the most pessimistic assumptions previously used.

As discussed earlier, the 1981 changes in railroad retirement (under section 22 of the Railroad Retirement Act) gave the railroad retirement system the authority to borrow from general revenues against the annual amount which social security owes railroad retirement under the financial interchange. The borrowing authority also included a so-called benefit preservation feature, which requires the RRB to notify the President and the Congress by April 1 of any fiscal year in which the RRB will borrow 50 percent or more of the amount owed to it by social security; and within 180 days of such notice, the following three things must happen:

(1) Rail labor and management must jointly or separately submit their proposals to Congress.

(2) The President must make his recommendations to Congress, "including a specific proposal to assure continuous payment of social security equivalent benefits by separating the social security equivalent benefits from the industry pension equivalent benefits payable under this act."

(3) The RRB must issue regulations allocating revenues in any month for which there are insufficient funds to receive full benefits.

These three requirements are part of current law.

Because of the severity of the recession, rail employment has dropped from 531,000 in 1980, to 404,000 as of December 1982, and the RRB actuary projects rail employment will continue to decline, possibly reaching 385,000 in 1983, 370,000 in 1984, and 360,000 in 1985.

If no corrective action is taken, therefore, the RRB will have to report to Congress by April 1983, that it will exceed its borrowing authority in fiscal year 1984, and it will have to issue regulations for a possible benefit reduction in the November 1983 checks. To avoid triggering any benefit reductions through fiscal year 1985, the RRB actuary estimates that a payroll tax increase of 7.3 percent of tier II payroll would be required on July 1, 1983. A tax rate increase of 8.5 percent of tier II payroll on October 1, 1983, would also delay the need for benefit reductions through fiscal year 1985.

The 1983 payroll tax rates and wage bases for tier I and tier II benefits are shown in the following table:

TABLE 4.—EMPLOYER AND EMPLOYEE PAYROLL TAXES FOR RAILROAD RETIREMENT BENEFITS—1983

	Tier I		Tier II	
	Tax rate (percent)	Monthly wage base	Tax rate (percent)	Monthly wage base
Employers	6.7	$2,975	11.75	$2,225
Employees	6.7	2,975	2.00	2,225

It is on this $2,225 monthy wage base that the RRB actuary forecasts the need for a 7.3-percent tax increase effective July 1, 1983, to avoid exceeding borrowing authority at any time before October 1985. A tax rate increase of 8.5 percent of tier II payroll in October 1985 would postpone any benefit cuts from October 1983 to October 1985.

(D) LEGISLATIVE RESPONSE TO RRB'S 1982 ACTUARIAL PROJECTIONS

On December 16, 1982, Representative Florio, chairman of the House Energy and Commerce Committee, Subcommittee on Commerce, Transportation and Tourism (the subcommittee with jurisdiction for authorizing legislation) introduced legislation (H.R. 7431), to prevent benefits from being automatically cut should rail labor and management neglect to come to a prompt agreement on recommendations to solve the financial problems of the railroad retirement system. The bill would amend section 22 of the Railroad Retirement Act to require the Board to raise taxes at the same time that it reduces benefits, if it is forced to take emergency action. Under this bill, the tier II payroll tax paid by employers would automatically increase by 3 percent and the tier II payroll tax paid by employees would automatically increase by 1.5 percent, simultaneously with a reduction in benefits. In his floor statement, Representative Florio urged rail labor and management to submit their recommendations to Congress promptly, so that such emergency measures contemplated by section 22 of the Railroad Retirement Act would not be necessary.[24]

Although this bill was not enacted, similar kinds of legislation may be introduced in the 98th Congress. On January 27, 1983, Aging Committee Chairman John Heinz and Senator Sasser introduced a concurrent resolution (S. Con. Res. 5) urging rail labor and management to explore various alternatives for remedying the railroad retirement system's financial difficulties, and reach agreement on a legislative package prior to October 1, 1983, when benefit reductions would otherwise be imposed by the administrative actions required of the Railroad Retirement Board.

H. PROGNOSIS FOR 1983

At the end of 1982, several issues appear to remain important for 1983. First, there is a continuing interest, particularly in this administration, in the deregulation of private pension plans. Concern seems to be focused primarily on lowering business costs and increasing the discretion of plan fiduciaries in investing plan assets. Deregulation of private pensions may pose a serious threat to the benefit protections afforded under ERISA, and efforts to move in this direction could lead to considerable controversy. Yet, there are clear indications that the administration plans to treat pension deregulation as a high priority for 1983.

Consideration of ERISA simplification legislation is likely to continue, at least in the Senate, in 1983, highlighting the tradeoffs between pension costs and benefit protections. However, it is difficult to anticipate which, if any, portions of this legislation will be eventually enacted by the Congress.

The costs of the civil service retirement system (CSRS), military retirement, and railroad retirement benefits will remain sensitive issues in 1983. The administration has proposed further cost-saving or revenue-producing changes in CSRS in the fiscal year 1984 budget. Suggestions include increasing employee contributions from 7 percent to 11 percent of payroll, increasing to age 65 the age at which unreduced pension benefits begin, and reducing by 5 percent a year the benefit payable for retirement earlier than age 65 (that is, 50 percent reduction at age 55). This continuing effort to shift costs from the Federal Government to CSRS participants and beneficiaries should increase support among Federal workers and retirees for proposals which can limit executive and congressional discretion in the payment of benefits to Federal retirees. A bill to reform the civil service retirement system could well offer CSRS retirees and current participants some protection from the administration's budget proposals.

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[24] Florio, James. Extension of Remarks in the House. Congressional Record, Daily Edition, v. 128, Dec. 16, 1982, p. E5227.

Early in 1983, the Congress is also likely to take up the issue of refinancing railroad retirement. A recent sharp decline in rail employment has resulted in an urgent need to strengthen the financing of this system.

This increasing emphasis on controlling pension costs is likely, once again, to overshadow other pension issues. Again in 1983, concerns about pension coverage, and the adequacy of pension benefits, are bound to receive little legislative attention.

Chapter 5

SOCIAL SECURITY DISABILITY

OVERVIEW

Families of older workers are the primary beneficiaries of social security disability benefits: 58 percent of disabled workers are between the ages of 55 and 64, and 73 percent of all disabled workers are age 50 to 64.[1] (At age 65, all disability awards are converted to retirement benefits, automatically.)

Against the backdrop of administration-proposed changes in 1981, the social security disability insurance (DI) program was the subject of continuous legislative interest during 1982, primarily because of the issues raised by the program of continuing disability investigations or CDI's. The Social Security Amendments of 1980 mandated that the Social Security Administration review the disability status of beneficiaries on the rolls at least once every 3 years, except for those designated as "permanently disabled," who are reviewed at an interval determined by the Secretary of Health and Human Services, which is currently once every 6 or 7 years. This program of periodic reviews was to begin on January 1, 1982. The Social Security Administration, however, on its own initiative, accelerated the beginning of these reviews to March 1981. Between March 1981 and the end of 1982 the termination rates for individuals reviewed by the State agencies fell in the range of 45 to 50 percent. In other words, nearly half of the beneficiaries were terminated at the initial level of review, although two out of three of those who appealed their terminations to an administrative law judge were reinstated upon appeal.

The problems associated with the review process were the focus of hearings before the House Ways and Means Committee, the House Aging Committee, the Senate Governmental Affairs Committee, and the Senate Aging Committee. Numerous bills were introduced in the House and the Senate to address these problems. In general, a consensus developed among advocates that three changes had to be made: (1) Benefits had to be continued to the administrative law judge's decision, subject to repayment for individuals who lose their appeal; (2) the number of reviews, originally projected at 805,000 for fiscal year 1983, had to be reduced to allow for more careful development of decisions; and (3) beneficiaries had to be afforded protection against improper terminations by requiring that individuals should not be terminated unless they have improved medically or are able to work because of specific advances in medical technology or vocational training.

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[1] Lando, Mordechai E., Alice V. Farley, and Mary A. Brown. Recent Trends in the Social Security Disability Insurance Program. Social Security Bulletin, v. 45, August 1982, p. 9, table 5.

Although the need for comprehensive reform was widely recognized, it was not possible to enact such legislation in the 97th Congress. Instead, an emergency, stopgap bill was passed, Public Law 97-455, which provides immediate relief pending more comprehensive reforms planned for the 98th Congress.

A. HISTORICAL DEVELOPMENT OF THE DISABILITY INSURANCE (DI) AND THE SUPPLEMENTAL SECURITY INCOME (SSI) PROGRAMS

1. THE BEGINNING: 1954 AND 1956 AMENDMENTS

To understand the concerns behind the sometimes conflicting recommendations for changes in the DI and the SSI programs, it may be helpful to review the legislative development of the programs. Although the idea for a disability program dates back to consideration of the 1935 Social Security Act, the original act and amendments through 1953 made no provision for disabled workers.

In 1954, Congress provided a disability "freeze" period similar to waiver of premiums in private life insurance contracts. Under the freeze, periods of disability would not count against a disabled worker in determining eligibility for, and the amount, of retirement benefits.

In 1956, Congress enacted a cash benefit program, 21 years after the enactment of the retirement program, and 17 years after the enactment of survivors insurance. The delay resulted, in part, from concern that providing social security disability benefits would discourage rehabilitation, encourage malingering and abuse, and add to the costs of the program—particularly during a recession when, it was argued, strong pressures would be placed on administrators to pay benefits to unemployed workers with medical impairments, regardless of their capacity for work. The so-called "liberalizing" influence of the courts in interpreting private insurance contracts, and the generally poor experience of private disability carriers during the 1930's, were cited as precedents.

There was also concern about the administrative difficulty in making disability determinations—namely, the subjectivity of determining whether a person was out of work because of a disability or for other reasons such as age, obsolete skills or experience, and the like.

In view of all of these concerns, the eligibility requirements for the cash disability program were tightly drawn in 1956 and made intentionally restrictive to guard against (1) high costs, and (2) confusion between the disability insurance program and the unemployment program.

Only those very severely disabled by a catastrophic illness or injury could qualify for benefits. A worker had to:

—Meet an age requirement—age 50 or older.

—Have substantial and recent work under social security; that is:

(1) Have *insured status for retirement benefits,* generally one quarter of coverage for each year after 1950 (or age 21 if later), up to the year of disability.

(2) Have *disability insured status,* 20 quarters (5 years) of coverage in the 40-quarter (10 years) period preceding the onset of disability.

(3) Have *currently insured status,* 6 quarters (1½ years) out of 13 quarters (3 years), before disability.

—Meet a very stringent test of disability, i.e., be unable to engage in any work by reason of a medical impairment which was expected to continue indefinitely.

—Accept vocational rehabilitation services or have benefits withheld.

—Wait 6 months following the onset of disability for payments to start.

The program was set up under a unique Federal-State relationship. The administration would be carried on by each State under contract with the Federal Government. Under agreements with the then Secretary of HEW, State disability determination units (housed within State vocational rehabilitation agencies) would make disability determinations based on the definition of disability in the Social Security Act, and in accordance with Federal regulations and guidelines issued by the Social Security Administration. This arrangement had distinct advantages because the States had prior experience in administering various disability-related programs and had established working relationships with the medical community. It was also assumed that when the disability determination process took place within State rehabilitation agencies, disabled individuals would be more easily referred for rehabilitation. The Federal Government's primary function was to interpret the law and oversee the uniform implementation of the program throughout the country.

Program experience in the first few years was better than anticipated and the scope of the program was liberalized and substantially expanded in later years.

2. PROGRAM EXPANSION: 1958, 1960, AND 1965 AMENDMENTS

In 1958, benefits were added for dependents of disabled workers. The currently insured work requirement, 6 of the last 13 quarters, was also eliminated. It was brought out in congressional hearings that failure to meet the test of 20 out of 40 quarters and the 6 out of 13 quarters test—at the same time when all other disability requirements were met—resulted in 10 percent of applicants being denied.

In 1960, the age 50 requirement was dropped, making benefits payable to disabled workers of any age who met the work requirements. The 1960 Social Security Act Amendments added a 9-month trial work period—without termination of benefits—to encourage beneficiaries to return to work. They also eliminated the 6-month waiting period for those workers who reapply for disability benefits after failing in their attempts to return to work.

In 1965, Congress liberalized the definition of disability by replacing the requirement of permanent disability with a requirement that the disability must be expected to last at least 12 months or end in death. This resulted in people qualifying for benefits who might recover from their disability, in addition to those expected to remain disabled until death. The 1965 amendments tried to encourage rehabilitation efforts by permitting the use of money from the DI trust fund to reimburse State vocational rehabilitation agencies for the cost of services provided to beneficiaries. The amendments also provided for an occupational test of disability for older blind persons. While all other applicants generally must be unable to do any substantial work, older blind persons only have to be unable to engage in their former occupations.

3. DISABILITY DEFINITION TIGHTENED: 1967 AMENDMENTS

Beginning with the enactment of the disability "freeze" in 1954, consideration had been given to both medical and vocational factors in disability determinations. Vocational factors were used to determine whether the person was able to *perform* work, rather than whether the person was able to *obtain* employment. However, SSA had not published regulations or other definitive materials to provide explicit guidance to disability examiners and ALJ's on how to apply vocational factors. This left the decision of how the factors should be weighed in the disability decision up to the courts.

Some Federal court decisions regarding vocational factors required the administration to identify jobs for which the desired applicant might have a reasonable opportunity to be hired, rather than ascertaining whether jobs exist in the economy which he can do. In 1960, only 10 percent of disability benefit awards were based on vocational factors; by 1965, awards on the basis of vocational factors were almost 16 percent of the total. Congress was concerned that judicial rulings would set standards that could lead to substantial cost overruns and that the disability program would become a form of unemployment insurance for people with physical impairments.

In 1967, Congress inserted in the statute interpretive material which was being used by the State agencies but was only in operating manuals. This language made it clear that an individual is not to be considered disabled unless his physical or mental impairments are of such severity that he is not only unable to do his previous work but cannot, considering his age, education, and work experience engage in any kind of substantial gainful work which exists in the national economy, regardless of whether such work exists in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied. The amendments also provided for disabled widow benefits, based on medical criteria only, beginning at age 50.

4. SUPPLEMENTAL SECURITY INCOME (SSI) PROGRAM: 1972 AMENDMENTS

In 1972, Congress created the supplemental security income (SSI) program to replace the three State-run welfare programs for the aged, blind, and disabled. The program was intended to supplement the income of needy persons who were not covered under the social security disability program or who had earned low benefits under that program. Although most of the discussion leading up to the passage of SSI centered on serving the aged population, and the presumption was that the aged would be the largest group of such recipients, in fact, the disability portion of the program has been over 60 percent practically since the inception of the program.

TABLE 1.—NUMBER OF PERSONS INITIALLY AWARDED FEDERALLY ADMINISTERED SSI PAYMENTS, 1974–80

Period	Total	Disabled	Disabled as percent of total
1974	890,768	387,007	43
1975	702,147	436,490	62
1976	542,355	365,822	67
1977	557,570	362,067	65
1978	532,447	348,848	66
1979	483,993	317,590	66
1980	496,137	318,699	64

Source: Social Security Administration.

Although the statutory definition of disability is the same for the SSI program as it is for the DI program, the leading causes of disability in the two programs have turned out to be quite different. More than 30 percent of awards to DI workers in 1975 (the year of the highest number of awards) were made on the basis of diseases of the circulatory system, i.e., heart disorders. The largest category of awards for the SSI adults was on the basis of mental disorders, as the following table illustrates.

TABLE 2.—COMPARISON OF DI DISABLED WORKER AWARDS AND SSI BLIND AND DISABLED ADULT AWARDS, BY DIAGNOSTIC GROUP, 1975

(in percent)

Diagnostic group	DI	SSI
Infective and parasitic diseases	1.3	1.6
Neoplasms (cancer)	10.0	5.4
Endocrine, nutritional, and metabolic diseases	4.0	5.0
Mental disorders	11.2	[1] 30.7
Diseases of the nervous system and sense organs	6.8	10.0
Diseases of the circulatory system	30.2	20.7
Diseases of the respiratory system	6.6	4.7
Diseases of the digestive system	3.0	2.1
Diseases of the musculoskeletal system	18.7	12.7
Accidents, poisonings, and violence	5.4	3.9
Other	2.8	3.1
Total	100.0	100.0

[1] Includes mental retardation—13.1 percent.

Source: U.S. Congress. Senate. Committee on Finance. Issues Related to Social Security Act Disability Programs. October 1979.

5. OTHER CHANGES IN 1972

In 1972, Congress also reduced the waiting period under the DI program from 6 to 5 months, the only change ever made to the length of the waiting period. But even more important, Congress increased disability and retirement benefits by 20 percent, and provided, effective in 1975, automatically adjusted benefits based on the rise in the Consumer Price Index (CPI). Whenever the CPI rose by 3 percent or more, benefits would rise automatically.

During the early and mid-1970's the number of recipients in both the DI program and the SSI program increased dramatically before leveling off in the late 1970's and then declining. Between 1970 and 1976, the number of disabled workers in the DI program almost doubled, from 1.5 to 2.7 million, while the covered work force increased by only 25 percent during the same period. In January 1974, about 1.3 million blind and disabled persons were brought into the SSI program from the former State welfare programs. By the end of the year, the number of SSI disability recipients had risen to 1.7 million. By December 1975, the number reached almost 2 million.

Combined DI and SSI benefit payments increased from a little over $4 billion in 1970, to about $23 billion in 1981. The following table summarizes the history of DI and SSI expenditures.

TABLE 3.—ANNUAL EXPENDITURES UNDER DI AND SSI DISABILITY PROGRAMS

[In billions]

Year	DI	SSI
1965	$1.7	[1] $0.4
1970	3.3	[1] 1.0
1973	6.0	[1] 1.6
1974	7.2	2.7
1975	8.8	3.1
1976	10.4	3.3
1977	11.9	3.6
1978	13.0	4.1
1979	14.2	4.3
1980	15.9	5.0
1981	17.7	5.6

[1] Represents expenditures under the pre-supplemental security income, State-run programs of aid to the blind and permanently disabled.

An important cost factor in the DI program is the rate at which workers become disabled and qualify for benefits. This rate is generally called the "disability incidence rate" by actuaries and demographers. The disability incidence rate remained fairly stable from 1968 to 1970, but in the next 5 years, the incidence rate increased by almost 50 percent. This increase far exceeded expectations and cannot be explained in terms of legislated changes in the disability program. Table 4 shows the number of awards and incidence rates for disabled worker beneficiaries from 1960 through 1980.

TABLE 4.—NUMBER OF AWARDS AND INCIDENCE RATES FOR DISABLED WORKER BENEFICIARIES, 1960–80

Calendar year	Number insured on Jan. 1 (in millions)	Number of awards during the year (in thousands)	Incidence rate (per thousand)
1960	46.36	208	4.49
1961	48.51	280	5.77
1962	50.47	251	4.97

TABLE 4.—NUMBER OF AWARDS AND INCIDENCE RATES FOR DISABLED WORKER BENEFICIARIES, 1960–80—Continued

Calendar year	Number insured on Jan. 1 (in millions)	Number of awards during the year (in thousands)	Incidence rate (per thousand)
1963	51.52	224	4.35
1964	52.30	208	3.98
1965	53.32	253	4.74
1966	54.99	278	5.06
1967	55.72	301	5.40
1968	67.96	323	4.75
1969	70.12	345	4.92
1970	72.36	350	4.84
1971	74.50	416	5.58
1972	76.14	455	5.98
1973	77.80	492	6.32
1974	80.44	536	6.66
1975	83.27	592	7.11
1976	85.15	552	6.48
1977	86.65	569	6.57
1978	88.83	457	5.15
1979	90.60	409	4.51
1980	93.10	390	4.19

Source: Final report of the National Commission on Social Security, March 1981.

The adverse experience in the social security disability program in the early and mid-1970's was not an isolated phenomenon. The experiences of the State welfare programs, SSI, the civil service retirement program, and other government and privately financed disability plans were similar. The number of persons on the disability component of State welfare rolls increased greatly in the early 1970's despite declines in the low-income population. The rate of disability awards for the same period in the civil service retirement program was about twice the rate of that in the 1960's.

TABLE 5.—DISABILITY BENEFICIARIES UNDER PUBLIC AND PRIVATE PROGRAMS

	Disabled workers, in thousands			
	1965	1970	1975	1977
Programs covering long-term disability:				
Social security disability insurance	988	1,493	2,489	2,834
Welfare for disabled and blind, later supplemental security income	642	1,016	2,024	2,207
Federal civilian employees disability	149	185	258	301
State and local government employees disability retirement	69	86	128	152
Private sector long-term disability retirement	[1] 371	[1] 570	[1] 825	[1] 800
Private sector long-term disability insurance		[1] 40	[1] 100	[1] 110

[1] Figure highly approximate.

Source: President's Commission on Pension Policy, final report, apendix, Ch. 40: Disability: A comprehensive overview of programs, issues, and options for change.

A study "International Trends in Disability Program Growth" published in the October 1981 Social Security Bulletin, shows a similar spurt of growth in government disability plans in other countries. The gross disability incidence rate increased in the Belgian and Finnish programs from the late 1960's and in the programs of the Federal Republic of Germany and France in the early 1970's, tapering off by the mid-1970's.

B. CAUSES FOR GROWTH

No studies have conclusively provided the specific reasons for the across-the-board growth in disability programs. Different analysts put more weight on one factor than another. A combination of factors is usually cited by experts on the social security program. The major factors are discussed below.

1. WEAK FEDERAL MANAGEMENT

A major cause of the unexpected growth in the DI program is often attributed to poor Federal administration of the program. Disability determinations are made separately by some 50 State agencies using medical and vocational standards established by the Social Security Administration. In the mid-1970's there was an enormous increase in the number of DI and SSI claims to be processed, and tremendous pressure to pay benefits timely. DI claims alone increased from about 868,000 in 1970, to about 1.3 million in 1974. DI administration was greatly deemphasized to keep pace with the escalating number of claims and at the same time to hold down administrative costs and personnel levels. Expedients were adopted in the development, documentation, and review of claims. For instance, the Social Security Administration eliminated its 100 percent review of State agency disability decisions and reviewed, instead, only a small sample of decisions. While this change resulted in reduced administrative expenses, it most likely also resulted in some disability awards which did not really meet the requirements of the law, and should have been disallowed. A preadjudicative review by the Social Security Administration that will eventually reach 65 percent of claims approved is required by the 1980 amendments.[2]

Another problem was that the Social Security Administration had major difficulties in issuing adequate and timely criteria for determining disability. As early as 1960, the so-called Harrison subcommittee of the House Ways and Means Committee in their study of the disability program recommended that the Social Security Administration provide disability examiners and ALJ's explicit guidance in the form of regulations and other precedent materials on how to apply the vocational standards. In 1974, the House Ways and Means Committee staff also called for clear and concise regulations on vocational factors. Nevertheless, regulations were not published until 1978, 20 years after the Harrison subcommittee recommendation.

The GAO pointed out in 1976, that medical listings issued in 1968, which were being used by State agencies to justify a finding of disability, lacked specificity and failed to take into consideration advances in medical technology. GAO also commented that State agency officials complained that the listings were too time consuming or too costly to implement. SSA spent several years updating the listings, which were published in 1979.

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[2] The administration requested a waiver of this requirement.

According to a March 1981, GAO report, "More Diligent Followup Needed To Weed Out Ineligible SSA Disability Beneficiaries," beneficiaries who are on the rolls might never have their eligibility status reviewed and might remain on the rolls until they voluntarily return to work, reach 65, or die. Some beneficiaries were never scheduled for reexamination; others were scheduled but never reexamined. Of a 14-percent sample of disability awards in 1975, only 52 percent of the scheduled medical reexaminations were actually done. As a result of a limited followup and poor management of the disability program, GAO published a report indicating that as many as 584,000 beneficiaries who do not meet eligibility criteria might be receiving disability benefits.[3]

2. MULTISTEP APPEALS PROCESS

The disability appeals process, which is essentially the same for both DI and SSI claims, can involve four distinct levels—the State agencies, the administrative law judges (ALJ's), the appeals council, and the courts. An applicant who has been denied disability benefits at the initial determination level may request a review of the claim by the State agency that made the original decision. This is referred to as a "reconsideration." The claim is reviewed by a person who did not participate in the original decision.

Those who are not satisfied with the reconsideration decision may request a hearing before an ALJ assigned to the Social Security Administration's Office of Hearing and Appeals. The ALJ may decide the case on the record or hold a hearing during which the applicant and others may present oral testimony and evidence. Applicants who disagree with the ALJ's decision may request a review by the appeals council, an independent review group also attached to the Social Security Administration Office of Hearings and Appeals. The appeals council may deny or grant a request for review.

If the council upholds the ALJ decision or refuses to review the case, the applicant may request a judicial review in a U.S. district court. The district court's decision is appealable to the appropriate U.S. circuit court, and the case may even end up in the Supreme Court.

The number of cases reversed on appeal has been increasing, with most of the increase occurring at the ALJ level. In 1964, about 10 percent of all allowances resulted from appeals beyond a denial at the first level. This percentage has risen steadily and tripled by 1980.

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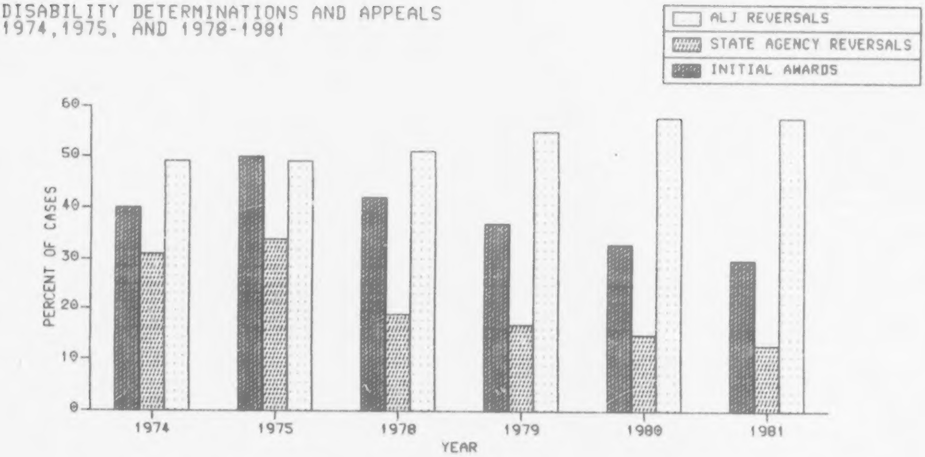
[3] The administration has since embarked on an intensive program of continuing disability investigations for DI and also for SSI.

TABLE 6.—TOTAL DI ALLOWANCES: 1964, 1980

	1964		1980	
	Number of awards	Percent of total	Number of awards	Percent of total
State agency:				
Initial	190,000	90.0	253,000	69.5
Reconsideration	15,000	7.5	32,000	9.4
Administrative law judge hearings	5,000	2.5	66,000	21.0

Source: Social Security Administration.

CHART 1



DISABILITY DETERMINATIONS AND APPEALS
1974,1975, AND 1978-1981

Source: Social Security Administration

3. Social Acceptance of Disability

Workers of all ages are more frequently claiming they are disabled and are more often being awarded benefits than in previous years. This tendency occurs across all educational levels. Medical evidence, however, shows no increase in impairments.

TABLE 7.—SELF-REPORTED INABILITY TO PERFORM USUAL MAJOR ACTIVITY AMONG MEN, AGE 45 TO 64

[In percent]

Year	Did not complete high school	High school graduate	More than high school
1969	10.6	4.0	2.8
1974	15.1	5.4	3.5
1978	17.1	7.4	3.9

Source: National Center for Health Statistics

Disability is not, however, solely a medical phenomenon. There is no one-to-one correspondence between an impairment and a disability. An impairment is a physical or mental abnormality determined by a physician, such as a loss of limbs, or poor hearing. Disability—the social concept—is an inability to earn a living which may result from an impairment. The determination of whether an impairment constitutes a disability for a particular person is a matter of judgment based on nonmedical factors such as age, education, skills, experience, motivation, and the alternatives available.

4. Greater Awareness of the DI Program

Data from the 1972 Survey of the Disabled show that, more than 15 years after the establishment of the DI program, almost one-half of the people who could not work regularly or work at all were unaware of the existence of the disability program. The SSI program was successful in spreading public knowledge of disability benefits because the SSI program is administered by the Social Security Administration. When people applied for the new SSI program, many were found to be also entitled to DI benefits based on their wage record. The number of people applying for disability benefits peaked in 1974—the first year of the SSI program.

5. High Benefit Levels

DI benefit levels rose rapidly after 1969, both in absolute terms and as a percentage of predisability earnings. In 1970–75, there were six benefit increases, for a compounded effect of an 82-percent increase. According to SSA actuaries, 28 percent of new disability entitlements during the 1969–75 period had disability benefits that exceeded 80 percent of predisability earnings.

Some experts suggest that high replacement rates attract disabled people onto the rolls and may discourage those already on the rolls from returning to work.

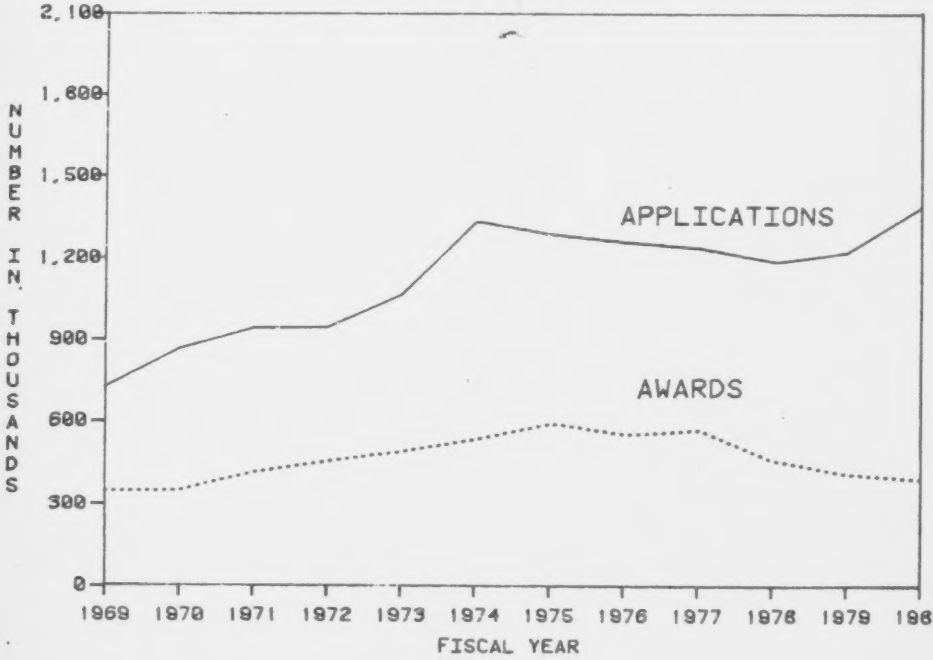
6. Poor Economic Conditions

When unemployment is high, it is harder for disabled workers to find and to keep jobs, so workers are more likely to apply for, and pursue disability benefits. For several years before 1970, the unemployment rate remained stable at below 4 percent. Since 1970, unemployed people have made up more than 5 percent of the labor force in every year except 1973 (4.9 percent). As chart 2 indicates, the year of the highest number of disability applications and awards was in the 1974-75 period when the unemployment rate was increasing, reaching 8.5 percent in 1975. (See chart 3.)

A research article "Disability Benefit Applications and the Economy," published in the March 1979 Social Security Bulletin, further indicates that the effect of labor market conditions need not be symmetrical—that is, more people tend to be pushed on the rolls by a deteriorating labor market than tend to be pulled off by improving labor market conditions. Thus, a large increase in unemployment—such as the increase experienced in 1975—may lead to a permanent upward shift in the number of beneficiaries on the disability rolls. The SSA report estimates that 19 percent of the applications received during 1970-78 may have resulted from changes in the economic choices facing disabled persons.

CHART 2

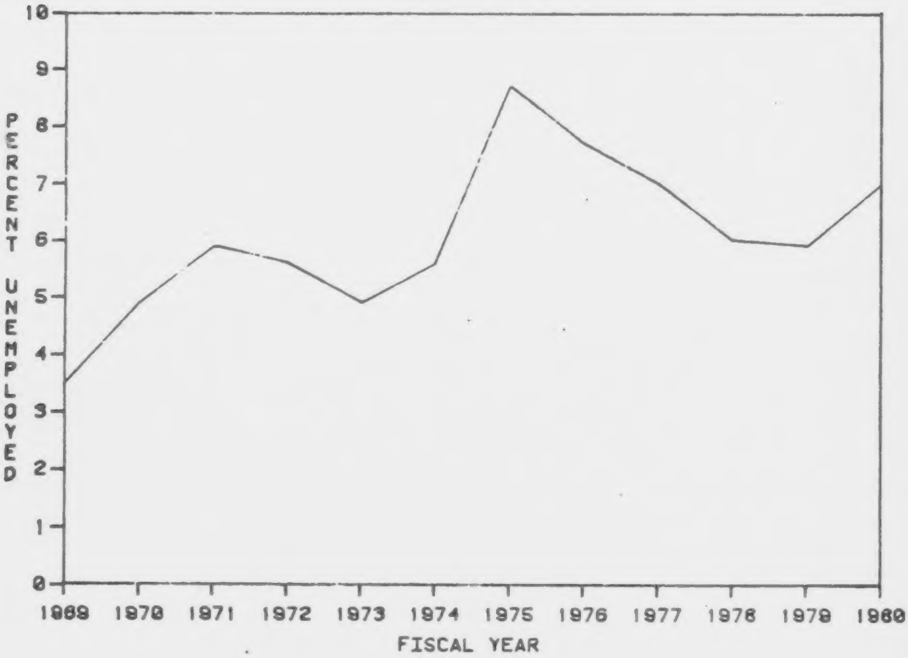
DISABLED WORKER APPLICATIONS AND AWARDS
1969-1980



SOURCE: SOCIAL SECURITY ADMINISTRATION

CHART 3

UNEMPLOYMENT RATE
1969-1980



SOURCE: BUREAU OF LABOR STATISTICS

C. PROGRAM REFORM: 1977 AND 1980 LEGISLATION

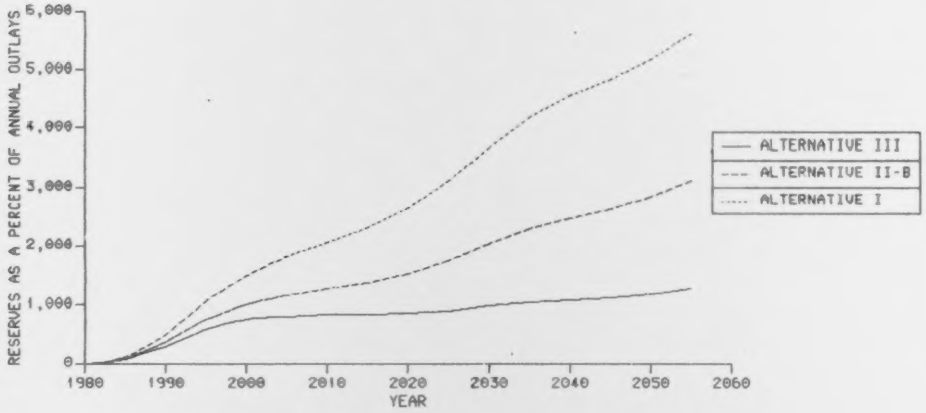
The size and the unexpected growth and costs of the disability program were a great source of concern during the 1970's to Members of Congress and the administration. Although the causes of the cost explosion were not conclusively documented, a number of legislative changes were implemented to increase revenues to the program and to control expenditures.

1. 1977 AMENDMENTS

In 1977, Congress substantially strengthened the financial condition of the OASI and the DI trust funds by legislating payroll tax increases, and lowering future costs by changing the indexing formula. By some estimates, newly awarded DI benefits following the 1977 amendments were about 10 percent lower, on average, than those previously payable. Benefits for younger workers, where relatively higher benefit amounts had been more prevalent, were lowered even more. Whereas the DI trust fund has been projected to become exhausted in late 1978 or 1979 before the 1977 changes, the fund is now projected to remain solvent over the next 75 years as shown in the following chart.

CHART 4

DISABILITY INSURANCE
LONG RANGE FORECASTS OF TRUST FUND RESERVES
1981-2055



Source: 1981 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table 31

2. 1980 Amendments

In 1980, Congress passed disability reform legislation that had been developing since 1974. The legislation grew out of concerns that work disincentives in the system, combined with faulty administration, might be responsible for the rapid growth in the program. The 1980 amendments set out to enhance work incentives in the DI and SSI programs and to improve the administration of the program to insure that benefits are only paid to those who are eligible. The 1981 trustees report projects disability recovery rates in the DI program will be 20 percent higher because of these amendments.

Major administrative provisions of the 1980 amendments require the Secretary of Health and Human Services to:

—Issue regulations specifying performance standards along with administrative requirements and the procedures to be followed by the States in performing the disability determination function.

—Review a specified percentage of claims approved by the State agencies before benefits are paid.

—Review decisions rendered by administrative law judges in disability cases and report to the Congress by January 1982, on the progress of this effort.

—Conduct experiments and demonstrations to test the effectiveness of various ways of encouraging the disabled to return to work.

The 1980 amendments also require the Social Security Administration, beginning in 1982, to review the cases of disabled workers on the DI rolls at least once every 3 years, except where the disability is considered permanent. SSA has accelerated this review, due to GAO and SSA reports released in 1981, indicating that many current beneficiaries, perhaps 20 percent, may not be disabled.[4]

Although no changes were made in the definition of disability in House consideration of the 1980 legislation, a proposed amendment was narrowly defeated by the full House Ways and Means Committee, which would have eliminated vocational factors in disability determinations. Eligibility would have been based solely on the person's medical condition. One reason for continuing present law rules was that the number of disability awards, based on vocational factors, declined from a high of 27 percent in 1975, to only 22 percent in 1979.

Congress was also concerned about excessive replacement rates (the ratio of benefits to earnings), where dependents' benefits are involved, and it passed a provision to cap family benefits to insure that no one will receive more in benefits that he or she had previously been earning. Even after imposing this new limit on DI family benefits, Congress remained concerned about excessive replacement rates. Multiple benefits, when a worker receives benefits from a number of different programs, may mean excessive earnings replacement rates and disincentives to work. A Social Security Administration study found that in 1971, 44 percent of workers who had been disabled for a year or more also received benefits from other public or private programs, in addition to disability benefits. Such multiple benefits may raise earnings replacement rates above those obtained when the computation is limited to social security disability benefits alone. Consequently, Congress enacted a provision in the Omnibus Reconciliation Act of 1981, placing a cap on the amount of disability benefits received from Federal, State, and local government plans, so that combined benefits do not exceed previous earnings. Other changes recommended by the Reagan administration were not adopted in 1981 or 1982.

D. REAGAN ADMINISTRATION PROPOSALS FOR SOCIAL SECURITY DISABILITY

In May 1981, as part of its package of social security reform proposals, the Reagan administration proposed four changes in the disability program—two of the proposals would have involved changes in the definition of disability, i.e., requiring a 27-month prognosis of disability instead of the current 12-month test, and basing decisions on medical factors only, instead of medical and vocational factors as under current law. The remaining two involved changes in eligibility (increasing the insured status requirement and extending the waiting period before benefits commence).

None of these changes was adopted in 1981. In 1982, however, the administration again proposed the above-mentioned changes in the definition of disability, but limited the proposed changes to the supplemental security income (SSI) program. The 1982 changes made in SSI, however, did not include any changes in the definition of disability.

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[4] But see the reservations about this justification expressed below.

Before discussing the changes proposed in the definition of disability, it is helpful to restate the present disability definition and the process for rendering a decision on a disability claim.

1. PRESENT DISABILITY DEFINITION

Legislatively, disability is defined as the inability to engage in any kind of substantial gainful activity (SGA) by reason of any medically determinable physical or mental impairment which can result in death or be expected to last for a continuous period of not less than 12 months. One must not only be unable to do one's previous work but also, considering age, education, and work experience, engage in any kind of substantial gainful activity which exists in the national economy (i.e., in significant numbers in the region where one lives, or in several regions in the country). It is immaterial whether such work exists in the immediate area where the applicant lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work.

The statutory definition of disability is the same for the SSI program, and it is considered to be a strict definition, which only the most severely disabled can meet. It is designed to distinguish between those who are out of work because of their medically determinable impairment and those who are out of work for other reasons. However, the statute is not specific in describing how the definition is to be applied in individual cases. This is spelled out in regulations and operating instructions.

2. DISABILITY DECISION PROCESS

It is not possible to evaluate each applicant on all of the objective and subjective factors that enter into determining inability to work. To process more than a million new claims each year, a five-step sequential evaluation procedure has been established. When a determination can be made at any step, evaluation under a subsequent step is unnecessary.

(1) The first step in the evaluation is to determine whether the applicant is currently engaging in substantial gainful activity (SGA). Under present regulations, if a person is actually earning $300 a month, he or she is engaging in SGA and is considered not disabled. Earnings are a clear sign that the person is able to work. Medical, vocational, or other factors are not explored.

(2) The second step in the sequence is to determine whether the applicant has a "severe" impairment. A "severe" impairment is defined as one that significantly limits physical and/or mental capacities to perform basic work-related functions. It is determined by medically acceptable clinical and laboratory diagnostic techniques. No consideration is given to a person's past work or other vocational factors. If the applicant does not have an impairment that is considered severe, the claim is denied at this point.

(3) If the applicant does have a severe impairment the next step is to determine whether the impairment meets or equals one of the disabling conditions specified in the medical listings developed by the Social Security Administration. If the impairment meets the duration requirements (1 year) and is included in, or equivalent to,

the medical listings, the applicant is presumed to be disabled without consideration of vocational factors.

(4) In cases where a finding of disability, or of no "disability," cannot be based on the SGA test, or on medical consideration alone, but the person does have a severe impairment, the fourth step is to evaluate the individual's "residual functional capacity" (RFC) and the physical and mental demands of past work. If the impairment does not prevent the applicant from performing past work, there must be a decision that the person is not disabled. If the applicant cannot carry out his former occupation, vocational factors come into play.

(5) The final step in the sequence is consideration of whether the applicant's impairment prevents other work. At this stage, the burden of proof shifts to the Government to show that the applicant can, considering his impairment, age, education, and work experience, engage in some other kind of work which exists in the national economy. Such work, however, does not have to exist in the immediate area in which an applicant lives; and a specific job vacancy does not have to be available.

Table 8 shows that the basis for disability denials has varied widely over the past 5 years. For example, in 1975, slight impairment was the basis for denials in about 8 percent of the cases, but this increased to about 40 percent in 1980. Denials based on the ability to perform usual work have also turned around, from 44 percent in 1975, to about 20 percent in 1980.

TABLE 8.—BASIS FOR DISABILITY DISALLOWANCES: INITIAL WORK DETERMINATION, 1975–80

[In percent]

Fiscal year	Engaging in SGA	Slight impairment	Duration	Able to perform usual work	Able to perform other work	Failure to cooperate	Failure to appear	All other codes
1975	1.0	8.4	19.6	44.3	18.2	5.1	1.8	1.6
1976	0.4	10.8	19.9	41.9	20.1	4.8	1.8	0.3
1977	0.5	24.8	21.2	30.0	15.7	4.9	1.8	1.1
1978	0.5	31.8	21.1	25.0	14.6	4.1	1.9	1.0
1979	0.4	41.6	20.0	21.5	12.5	0.9	2.3	0.8
1980	0.3	43.6	20.6	20.1	12.4	0.5	2.8	....

Source: Social Security Administration.

3. CHANGE 12-MONTH DURATION REQUIREMENT

In 1965, the test of long continued and indefinite duration—usually interpreted as a 24-month duration—was replaced with the present 12-month test. At that time, the House voted to change the duration to 6 months, but the Senate felt that 6 months was too short a time and would permit payments to workers with temporary disability. The Senate chose a 12-month duration requirement because: "As experience under the program has demonstrated, in the great majority of cases in which disability continues for at least a year, the disability is essentially permanent."

The Reagan administration recommended in May 1981 a return to the more restrictive requirement of 24 months to assure that people with disabling impairments, which are amenable to treatment and recovery, would not qualify for disability benefits. The administration estimated that savings would be $2.8 billion over 5 years.

Opponents of the change say the proposal would make it too difficult for deserving applicants to qualify for benefits. Opponents cite statistics indicating that 8 out of 10 people who now apply for benefits are denied.

Some workers who would not qualify under the 24-month duration could qualify for SSI if the disability prognosis is not changed in that program, but many people would not meet the strict income and asset test for SSI eligibility. Also, since the duration test is an integral part of the definition of disability in both the DI and the SSI programs, a difference in the duration requirements between the two programs may be difficult for the public to understand. This would be particularly true where a person files claims for both benefits simultaneously and is found disabled under one program but not the other.[5]

A change to 24 months duration may also make it more difficult for physicians to provide a prognosis for a patient, thereby slowing the adjudicative process and making determinations even more inexact than they are under current law.

A social security followup survey of beneficiaries awarded in 1972, the latest data available, showed that only 4.7 percent recovered from disability within 24 months after entitlement and 0.2 percent of them later relapsed into disability.

4. BASE DETERMINATIONS ON MEDICAL CONSIDERATIONS ONLY

A medical only determination, coupled with a long duration requirement, is usually suggested by those who believe that the present definition of disability is too subjective, results in a lack of uniform decisions, and makes the program too difficult to administer. The Reagan administration proposed a medical only determination in its May 1981 package. Projected savings were $7.7 billion in the first 5 years with long-range savings of 0.06 percent of taxable payroll.

Presumably, under a medical only determination, an applicant would be allowed benefits only if he "meets" or "equals" the medical listings spelled out in the regulations. Therefore, steps 4 and 5 of the sequential determination process—the most subjective—would be eliminated.

Arguments for and against this proposal are similar to those cited above concerning the increase in the duration requirement from 12 months to 24 months. Opponents make the additional argument that a relatively small number of workers, about 25 percent, qualify for benefits based on a combination of medical and vocational factors, and it is not at all clear that members of this group are able to work and support themselves. Moreover, the administration of the program has already been substantially tightened to the point that the largest number of awards, about 60 percent, are being made on the basis of the most stringent medical criteria—"meets" the listings. This is about the same percentage as in the beginning of the program. The basis for disability allowances in selected years is shown in chart 5.

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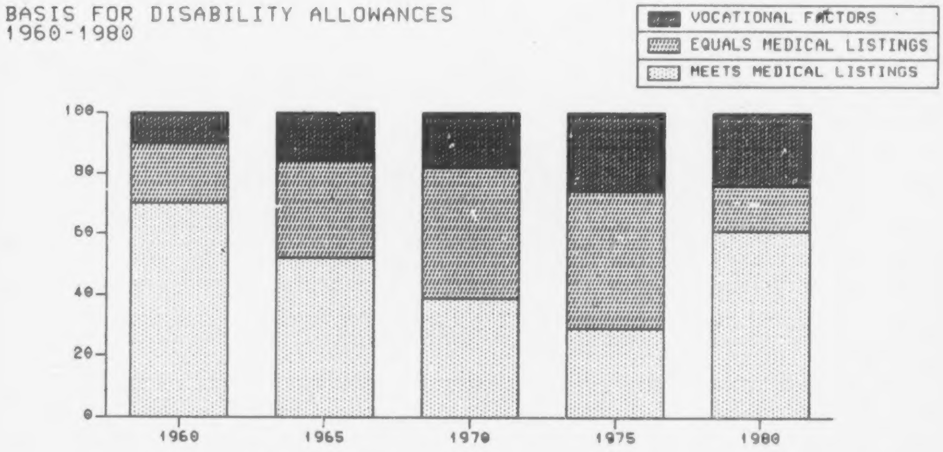
[5] The administration's fiscal year 1983 budget proposed to change the SSI definition of disability, but not the social security disability definition, to require a 24-month prognosis and a "preponderance" of medical evidence.

CHART 5



Source: Social Security Administration

The greatest impact of a change to medical only determinations will likely be on older workers. Under this change, a 64-year-old unskilled illiterate worker with a severe injury could be treated the same as a 34-year-old businessman with a college education. Under present rules older workers receive an advantage, and this is reflected in the number of allowances made on the basis of vocational factors. While about 25 percent of all awards in 1980 considered vocational factors, more than one-third of those age 60 to 64 had some vocational factors taken into account in determining their eligibility.

TABLE 9.—*State agency initial allowances based on combination of medical and vocational factors, 1980*

Age:	*Percent*
Under age 50	7
Age 50 to 54	18
Age 55 to 59	31
Age 60 to 64	38
All ages	24

Source: Social Security Administration.

Older workers who have an impairment so severe as to prevent them from doing their past work are more readily found to be disabled than younger, but otherwise similar, persons. If persons age 55 through 64 are unable to perform work requiring a medium amount of strength and endurance (i.e., stand for most of the day, lift up to 50 pounds, and frequently carry or lift up to 25 pounds), and have no transferable skills or relevant work experience, they may be eligible for benefits even though they are physically able to perform less demanding work. For people age 60 through 64, skills are considered transferable only if they can be used in an occupation closely related to the individual's prior work. Given that "closely related" is defined narrowly in practice, persons age 60 or over who cannot do medium work are usually found to be disabled if they are unable to perform jobs that they have recently performed—even if they have skills that might be transferable.

By a narrow majority, the 1979 Advisory Council on Social Security recommended that the rules now applied to people age 60 through 64, should be extended to cover people age 55 through 59. Their rationale was that handicapped workers in their late fifties suffer from the same difficulties in obtaining jobs as do handicapped workers in their sixties. People with severe physical limitations that keep them from doing their past work cannot realistically be expected to adjust to other employment after age 55. In practice, they are totally disabled. For persons awarded disability in 1975, the year of the highest number of awards, the median age was 55.6; 37 percent had an eighth grade education or less; and 44 percent had been employed in blue-collar positions requiring some type of physical labor.

Earlier Advisory Councils on Social Security also recommended making it easier for older workers to qualify for disability benefits. Both the 1971 and the 1975 councils recommended that the occupational definition of disability, similar to the definition now applicable to older blind workers, be extended to all handicapped workers age 55 or over. The 1975 advisory council added this feature to its recommendation: Having a 20-percent reduction from the full disability benefit (similar to early retirement benefits) to ease the cost of the change.

5. Increase Insured Status Requirements

The Reagan administration proposed in 1981 to reinstitute the recency of work test (6 of the last 13 quarters preceding disability) that was eliminated by the 1958 amendments, and also to increase the regular work requirements from 20 of the last 40 quarters preceding disability, to 30 out of the last 40 quarters.

The new 6 out of 13 quarters requirement was passed by the Senate as a part of the 1981 omnibus reconciliation legislation but was dropped by the conference committee. It was estimated to save the DI program $3.8 billion between 1982 and 1986. The 30 out of 40 proposal would save $10 billion more during the same period.

The combined effect of both proposals would be to require that DI beneficiaries have a more recent and longer attachment to the paid labor force. Under present rules, a person can be out of covered employment for 5 years and still qualify for benefits.

Precise estimates of the number of people that would be affected by the more strict requirements are not available. A recent study by SSA, however, shows that 9 percent of the people who would qualify for DI benefits under current law would not meet the 6 out of 13 quarters test. The study also showed that women and minorities are relatively less likely than white males to meet the 6 of 13 test. According to the October 1981 House Ways and Means Committee print "Reagan Administration Disability Proposals," women who leave the work force to care for children will lose coverage under the 6 out of 13 rule if they are out of the work force for more than 21 months. If they are out of the work force for 2½ years (for example, to care for a child), they would have to return to work steadily for 7½ years before they could regain their disability insured status.

SSA estimated that, using the 30 out of 40 quarters proposal, between 20 and 30 million of the estimated 95 million workers under age 65 now insured for disability would lose their insured status. It is not known exactly how many of these workers have long-term disability protection other than under the DI program. In discussing the interaction of private disability plans and social security, the House Ways and Means Committee staff report on the DI program in July 1974, stated:

> The Social Security Administration informs us that it believes that about 20 million people have disability protection through their pension plans and that group long-term disability policies cover about 8.6 million people. Although some workers have protection under both types of coverage, it is estimated that roughly 25 million wage and salary workers, or about two-fifths of the wage and salary labor force, have protection against the risk of long-term disability through nongovernment arrangements which supplement social security disability benefits.

A major problem with tightening recent work requirements is that there may be justifiable reasons for disabled workers to have been out of the work force, such as an illness that does not meet the definition of disability, a progressively debilitating disease, onset of disability after a period of unemployment, child care, etc. An exception could be made for such reasons, but this would make the provision difficult to administer.

6. EXTEND THE WAITING PERIOD

In 1972, the waiting period for payment of disability benefits was reduced from 6 to 5 months. The Reagan administration recommended restoration of the 6-month period to conform to the terms of most private disability insurance plans.

The administration believed a strict definition of disability and a longer waiting period would discourage workers from applying for disability benefits and help keep the cost of the program under control. SSA surveys indicate that some 10 million people of working age have what might be considered severe disabling conditions. In comparison, less than 3 million of them receive DI benefits, while many others work. A long waiting period makes it more costly for a person who can work not to do so. The waiting period has also been used by SSA in the DI program as a way of seeing whether a person only has a temporary incapacity to continue working. There is no waiting period in the SSI program.

The House Ways and Means Committee recommended the present 5-month waiting period in 1972. In its report, the committee then stated:

> While many workers have some protection against loss of income due to sickness or disability under various public or private plans (such as group policies, sick-leave plans, etc.), such protection usually expires before the end of the present disability waiting period. Reducing the waiting period from 6 months to 5 months would diminish the financial hardships faced by those workers who have little or no savings or other resources to fall back on during the early months of long-term total disability.

While the 1-month reduction in the waiting period originated in the House during the 92d Congress, it actually was preceded by a Senate amendment during the 91st Congress. The Senate amendment would have reduced the waiting period by 2 months. The Senate passed the bill in December 1970, but limited time in the 91st Congress precluded further action. The Senate Finance Committee's report to the Senate commented:

> The Department of Health, Education, and Welfare informed the committee that: About one-fourth of the workers in private industry are covered under State temporary disability programs which provide protection during the early stages of long-term total disability but do not provide benefits for longer than 26 weeks, less than 2 percent of workers with long-term total disabilities received workmen's compensation, and many workers who have protection against loss of income due to sickness or disability under employer plans (such as group policies, sick-leave plans, or union-management plans) lose their benefits well before the sixth month of total disability.
>
> The committee's change is intended to relieve the financial hardship that occurs when a worker becomes disabled and the family is without earnings during the 6-month waiting period. Therefore, the committee's bill would reduce the waiting period by 2 months, so that entitlement to disability benefits would begin after a 4-month waiting period.

The 1979 advisory council recommended that the waiting period be reduced to 3 months. All new disabled beneficiaries, including the terminally ill, already wait 5 full months before benefits are paid. If disability begins after the first day of the month, the waiting period begins with the following month. Thus, some people have to wait until the end of the seventh month before a check is payable.[6]

The 1980 amendments authorize up to $2 million a year for SSA to study the impact of the waiting period and other DI provisions on the terminally ill. The report is expected to be completed in 1984.

E. PROGRAM OF CONTINUING DISABILITY INVESTIGATIONS

As mentioned earlier, the 1980 Amendments to the Social Security Act made important changes in the disability program in an effort to curb the rapid expansion in the program witnessed in the mid-1970's and to encourage beneficiaries to return to work. One of the provisions in the 1980 amendments required a periodic review of individuals on the disability rolls. Beneficiaries who are not deemed "permanently disabled" are to be reviewed at least once every 3 years while those who are considered "permanently disabled" are to be reviewed at an interval determined by the Secretary, which is currently once every 6 to 7 years.

It should be noted that this periodic review provision was not expected to yield massive savings in the disability program. At the time of the conference report on the legislation, this provision, which was made effective January 1, 1982, was estimated to have no net savings until after 1984. It was felt that time and an assured budget would be required for the States to beef up their staffs to take on this additional function of periodically reviewing cases. In the 4-year period 1982 through 1985, a net $10 million was projected to be saved, i.e., over and above the increases in administrative costs necessary to carry out the reviews.[7]

Weak Federal management, it was seen earlier, was widely believed to have contributed to the expansion of the disability rolls. In March 1981, the General Accounting Office issued a report, "More Diligent Followup Needed To Weed Out Ineligible SSA Disability Beneficiaries."[8] The GAO report pointed out numerous deficiencies in the way SSA managed the disability caseload. In particular, GAO found that SSA's procedures for reviewing the disability status of individuals who were likely to have improved—had virtually broken down. Most individuals never had their disability status reviewed; and of those who met the criteria for reexamination, many were never scheduled for reexamination, while many others were scheduled for reexamination but were never actually reexamined. GAO, after reviewing this record of poor management, recommended that SSA take steps to improve the review process and expedite the disability reviews.

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[6] Social security checks are issued at the beginning of the month for the prior month's benefits.

[7] U.S. Congress. House. Committee on Ways and Means. Subcommittee on Social Security. Status of the Disability Insurance Program. Report prepared by the staff of the Subcommittee on Social Security. Ways and Means committee print (WMCP): 97-3, 97th Cong., 1st Sess., Mar. 16, 1981. Washington, U.S. Govt. Print. Off., 1981.

[8] U.S. General Accounting Office. More Diligent Followup Needed To Weed Out Ineligible SSA Disability Beneficiaries. Report to the Congress by the Comptroller General of the United States. HRD-81-48, Mar. 3, 1981. Washington, 1981.

The Social Security Administration, on its own initiative, accelerated the review process scheduled to begin, by law, on January 1, 1982. Instead, SSA began reviewing disability cases in an accelerated manner effective March 1981. SSA witnesses at congressional hearings repeatedly testified that it made this decision in response to congressional pressure to review claims (as witnessed in the 1980 amendments), and in response to the GAO recommendations. But the decision to accelerate the reviews was primarily made in response to directives from the Office of Management and Budget to produce additional savings in the administration of the program. Nevertheless, in virtually all of its public statements, SSA cited the above-mentioned GAO report which suggested that as many as 20 percent of disability beneficiaries are not disabled, as justification for its intensified review process.

It is important to note that the GAO, in preparing this report, made no independent evaluation of the disability status of individuals on the rolls. Instead, GAO merely extrapolated from an internal SSA Pilot Study No. 1, which estimated that 20 percent of individuals on the rolls were not disabled. In a response to a written question posed by Chairman Heinz pursuant to an August 18, 1982, hearing before the Senate Finance Committee, GAO acknowledged that it had not made any independent evaluation of beneficiaries. GAO stated that it believed the SSA pilot study was performed properly and yielded reliable results. Yet there are growing indications that there were problems with this study. In SSA's Pilot Study No. 1, the same cases were put through two independent reviews. In those cases where the individual was found during the first review as not being disabled, the second reviewers agreed only 60 percent of the time that the individual was not disabled. In 40 percent of the cases, there was disagreement between the two reviewers as to whether the individual was disabled or not. Furthermore, no independent followup has been done of the individuals considered to be "not disabled" in this pilot study. GAO is currently looking at the persons in this group to determine whether, in fact, they were removed from the rolls.

The Social Security Administration further attempted to justify its accelerated reviews by linking the supposed "20-percent error rate" to the financing problems of the OASDI system. In fact, the social security disability insurance trust fund is soundly financed, and in no way contributes to the wide deficit in the OASI fund.

But with these arguments before them, the administration began its accelerated reviews in March 1981. Almost as soon as the program got underway, serious problems began to emerge.

1. PROBLEMS EMERGE WITH CDI'S

Not long after the program of accelerated reviews got underway in the spring of 1981, problems emerged. Press accounts of severely disabled individuals who had been terminated from the rolls began to proliferate; and constituent reports to Members of Congress began to establish an alarming pattern of questionable terminations. Moreover, the numbers of individuals terminated quickly began to exceed the estimates made in 1980 and later. Instead of a 20-percent error rate, SSA has terminated 45 percent of the individuals reexamined by the State agencies (table 10). Instead of the $10 million in net savings forecast at the time of the Disability Amendments of 1980, Chairman Heinz pointed out that the President's fiscal year 1983 budget request projected disability savings of $3.5 billion—or 325 times the original 1980 estimate.

TABLE 10.--TITLE II AND XVI CDI WORKLOADS, OCTOBER 1, 1981 THROUGH JULY 31, 1982 (FISCAL YEAR 1982)

		Dispatched	Decisions	Pending	Cessation Rate
UNITED STATES		303,700	349,892 1/	233,148	45.2
Boston	Connecticut	2,285	3,430	875	41.3
	Maine	1,721	2,298	462	40.5
	Massachusetts	7,020	6,825	6,650	37.3
	New Hampshire	950	1,790	330	31.0
	Rhode Island	1,482	1,123	1,014	43.7
	Vermont	776	1,017	341	31.7
	Regional Total	14,234	16,483	9,672	38.0
New York	New Jersey	10,548	7,474	10,292	52.0
	New York	27,218	23,872	38,165	51.4
	Puerto Rico	8,900	10,521	5,616	72.1
	Regional Total	46,666	41,867	54,073	56.7
Philadelphia	Delaware	606	321	1,038	32.5
	District of Columbia	579	637	236	40.3
	Maryland	3,729	2,874	6,075	33.9
	Pennsylvania	11,871	13,446	15,231	44.3
	Virginia	6,849	8,497	2,550	41.5
	West Virginia	4,615	4,858	3,989	43.9
	Regional Total	28,249	30,633	29,119	42.3
Atlanta	Alabama	7,286	10,076	4,380	42.4
	Florida	11,933	9,768	19,304	45.3
	Georgia	8,895	11,668	3,386	46.4
	Kentucky	7,788	4,920	8,340	40.3
	Mississippi	4,904	6,630	1,583	41.0
	North Carolina	8,745	14,359	4,353	38.6
	South Carolina VR	4,503	7,233	1,660	41.1
	Blind				
	Tennessee	8,841	9,353	5,697	41.7
	Regional Total	62,895	74,007	48,703	42.2
Chicago	Illinois	12,929	15,917	4,704	47.5
	Indiana	6,842	5,013	7,205	46.2
	Michigan	13,306	15,026	6,817	44.4
	Minnesota	4,091	5,636	1,398	32.9
	Ohio	18,063	17,385	7,648	42.3
	Wisconsin	4,996	4,234	6,463	50.3
	Regional Total	60,227	63,211	34,235	44.1
Dallas	Arkansas	5,184	6,405	3,161	51.5
	Louisiana	7,242	10,727	2,128	54.0
	New Mexico	1,384	2,007	574	58.2
	Oklahoma	4,316	5,416	3,441	47.7
	Texas	14,536	14,126	16,153	50.5
	Regional Total	32,662	38,681	25,457	51.7
Kansas City	Iowa	2,378	2,914	1,024	35.6
	Kansas	1,461	2,019	691	40.1
	Missouri	7,347	10,772	2,306	39.0
	Nebraska	1,500	2,901	437	33.2
	Regional Total	12,686	18,606	4,458	37.7
Denver	Colorado	2,953	3,713	1,652	39.0
	Montana	1,021	1,472	364	40.7
	North Dakota	575	1,015	53	38.1
	South Dakota	791	1,208	90	22.8
	Utah	893	1,790	291	37.4
	Wyoming	303	468	70	31.7
	Regional Total	6,536	9,666	2,520	36.5
San Francisco	Arizona	2,451	5,429	1,517	39.0
	California	28,284	38,206	19,439	48.1
	Guam				
	Hawaii	861	964	332	28.2
	Nevada	723	1,286	228	43.5
	Regional Total	32,319	45,885	21,516	46.5
Seattle	Alaska	243	345	112	29.1
	Idaho	760	1,403	193	48.3
	Oregon	1,952	3,364	845	38.5
	Washington	4,271	5,741	2,245	34.2
	Regional Total	7,226	10,853	3,395	37.2

Form SSA-2884 (7-78) (Formerly CO-1770) (Destroy prior editions)

1/ This number includes cases dispatched prior to 10/81.

Source: Social Security Administration.

In the fall of 1981, Chairman Heinz instructed the staff of the Special Committee on Aging to undertake a report on the social security disability program; and on February 12, 1982, Chairman Heinz sent a letter to Charles A. Bowsher, Comptroller General, asking for an expedited GAO investigation of the program of continuing disability investigations:

> Neither I nor my colleagues on the committee wish to see people who are not disabled continue receiving benefits. But, increasingly, serious allegations are being made that the law is not being applied properly.
>
> The committee has received reports that the agencies are putting subtle pressures on disability examiners which incline them to be too hasty and sloppy in denying benefits. There are reports that, in some cases, beneficiaries have been denied benefits without current medical evidence on file, and that individuals have had benefits terminated without sufficient time to supply medical evidence. Also, in some instances, beneficiaries have received notices of retroactive terminations of benefits, thereby resulting in an overpayment liability for which the individual is not at fault.
>
> Since the loss of disability benefits is often traumatic, and 45 percent of those who are reexamined are currently being terminated, I am concerned about the potential for substantial and possibly irrevocable damage to large numbers of beneficiaries.

The concerns of Chairman Heinz were echoed in a March 1982 information paper prepared by the staff of the Senate Special Committee on Aging entitled, "Social Security Disability: Past, Present, and Future." This report pointed out that 7 out of 10 new disability claims were being denied by the Social Security Administration; and that nearly half of those being reexamined were being terminated, although two-thirds of those who appeal their terminations had their benefits reinstated. Chairman Heinz and Ranking Minority Member Lawton Chiles said:

> The traumatic impact of the loss of disability benefits, coupled with the growing allegations of impropriety in the way the disability examinations are being conducted, is a source of serious congressional concern.

2. CONGRESSIONAL HEARINGS

On March 11, 1982, the Subcommittee on Social Security and the Subcommittee on Oversight of the Committee on Ways and Means held a hearing on, "Possible Irregularities in Medical Examinations Purchased From 'Volume Providers' for the Social Security Disability Program."[9]

The committee heard testimony from numerous sources that the tendency of State agencies is to purchase consultant examinations from physicians and their support staffs who confine their practice exclusively or nearly exclusively to disability examinations, providing an income based on volume and specialization. The committee heard testimony that in many cases, and in many States, the quality of these investigations was inadequate and that the medical evidence used in judging the disability review was insufficient on which to base a finding.

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[9] U.S. Congress. House. Committee on Ways and Means. Subcommittee on Social Security and the Subcommittee on Oversight. Possible Irregularities in Medical Examinations Purchased From "Volume Providers" for the Social Security Disability Program. Hearing, 97th Cong., 2d Sess., Mar. 11, 1982, Serial 97-55. Washington, U.S. Govt. Print. Off., 1982.

On May 21, 1982, the House Select Committee on Aging held a hearing on "Social Security Disability Insurance Program: Cessations and Denials." [10] In his opening statement, Chairman Claude Pepper declared:

> We are about to begin a hearing which may, and I regret it if it does, reveal a cruel chapter in the history of our country. Last March, hidden away on page 174 of the April budget document, the administration proposed a cut of $3,400,000,000 in the social security disability insurance fund or program. They planned to achieve this cut through intensified review and improved management.
>
> * * * Today I am releasing a report [*] which documents that over 130,000 beneficiaries have been terminated during the first year of the administration's initiative, and over 600,000 are expected to suffer a similar fate during the next 2 years. Evidence suggests that a sizable proportion of these people are very truly disabled.
>
> The committee has been deluged with individual case examples of disabled people who have been terminated from the DI rolls. These examples have been brought to our attention through reports from local agencies, local newspapers who have done their own investigations, and pleas for help addressed to the committee. Handling of these cases was characterized by inadequate medical evidence in case development, arbitrary overruling of medical evidence, perfunctory review, review and appeal procedures beyond the capacity of mentally disturbed beneficiaries, and deceptive notification policies. In short, we are witnessing arbitrary terminations and denials of DI benefits on the grandest scale in the history of the program.

Alluding to the 1981 Reagan administration proposals to modify the disability program, discussed above, which Congress failed to adopt, Pepper charged that:

> The budgetary savings that the administration was unable to obtain legislatively will be obtained through the back door—by throwing eligible people off the disability rolls.

Only 4 days later, a May 25 hearing before the Senate Subcommittee on Oversight of Government Management of the Committee on Governmental Affairs, chaired by Senator Cohen, who also serves on the Senate Aging Committee, documented further problems with the program of continuing disability investigations. Under questioning from Senator Levin,[11] Social Security Administration officials conceded that, when one considered the number of cases reinstated by administrative law judges (60 to 67 percent of the cases appealed), "you come out with a quarter of a million people who are going to be eliminated from the rolls between the beginning of this program in 1981, and the end of 1983, who, according to the administrative law judges, should not have been removed from the rolls."

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[10] U.S. Congress. House. Select Committee on Aging. Social Security Disability Insurance Program: Cessations and Denials. Hearing, 97th Cong., 2d Sess., May 21, 1982. Comm. Pub. No. 97-344. Washington, U.S. Govt. Print. Off., 1982.

[*] U.S. Congress. House. Select Committee on Aging. Impact of the Accelerated Review Process on Cessations and Denials in the Social Security Disability Insurance Program. A report by the chairman, 97th Cong., 2d Sess., October 1982, Comm. Pub. No. 97-345. Washington, U.S. Govt. Print. Off., 1982.

"I'm just taking the math," said Senator Levin. "You can see it when you multiply it."

In questioning the administration witnesses, Subcommittee Chairman Cohen also established that the notices sent to beneficiaries fail to apprise them of the ground rules for a disability review, and in particular, fail to tell the individual that he or she has the burden of proving they are disabled all over again.

Senator Cohen asked:

> Ms. Greenberg [SSA witness], I guess what I'm saying is, why not spell out, say, your claim is under review, which means that past evidence will be disregarded? You must present your entitlement as if it were a brand new proceeding to demonstrate that you have the burden of proof of showing that you are entitled.
>
> For example, I did a lot of workman's compensation work when I was practicing law. Once a disability determination was made, it was reviewed periodically. But the doctors only had to demonstrate that there had been no change in the condition for the individual to continue to receive benefits. Yet the SSA ignores much of the claimant's past record, and imposes the burden on the claimant to prove his disability in so many days.[12]

Senator Cohen's comments were further documented by the testimony submitted by the General Accounting Office, which reflected the results of the GAO investigation earlier requested by Chairman Heinz and others. An excerpt of the GAO testimony follows:

> In summary, through the ACDI/periodic review process, SSA is reviewing a group of beneficiaries who were awarded benefits several years ago under a more liberal, less objective evaluation process. These are generally people who were led to believe that they were being granted a lifetime disability pension. Now, with no advanced explanation from SSA about the purpose, process, or possible outcome of the periodic review—they are subjected to a *new decision,* much the same as if they were applying for disability benefits for the first time. There is no presumptive effect

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[11] U.S. Congress. Senate. Committee on Governmental Affairs. Subcommittee on Oversight of Government Management. Oversight of Social Security Disability Benefits Terminations. Hearing, 97th Cong., 2d sess., May 25, 1982. Washington, U.S. Govt. Print. Off., 1982, p. 28. (Hereafter cited as Senate Subcommittee on Oversight of Government Management, oversight hearing.)

[12] Ibid., p. 17.

given to the prior findings of disability, nor to the years that these individuals have been entitled to payments.

By getting a new decision these beneficiaries have several disadvantages. The decision is made using a newer, more objective, more stringently interpreted set of evaluation guidelines; and is made in a tougher "adjudicative climate." At the same time, these decisions are subject to the same inherent weaknesses that have always plagued the SSA disability determination process—subjectivity, and medical development of questionable quality and completeness.

Subjecting everyone to a new decision, also, has a major adverse impact on the group of beneficiaries who were placed on the rolls initially through the appeals process. Because of the historical differences in adjudicative criteria between the States and the administrative law judges (ALJ's), many of these beneficiaries are now being taken off the rolls after reexamination by the same State agency that found them not disabled originally. Since the State's original decision was "not disabled," a new decision by the State would generally be expected to have the same conclusion, particularly in light of the tightened disability determination criteria and adjudicative climate. Many of these individuals may be put back on after another appeal.[1] We do not know how many cases are affected by this "merry-go-round" review, but the number could be quite large.

MEDICAL IMPROVEMENT ISSUE NEEDS TO BE ADDRESSED

For the reasons discussed above, many beneficiaries whose conditions have not improved, or may even have worsened, are being told they are "no longer disabled," and are terminated from SSA's disability rolls. We believe the aspect of "no medical improvement" for a large percentage of the cessations during the last year accounts for much of the adverse publicity given the ACDI/periodic review process. This is not a new issue, but perhaps has been exacerbated by the large number of "nondiaried" cases examined by SSA during the last year.

During our limited case review, we did not attempt to quantify the number of cessations where there was no apparent medical improvement. However, a recent SSA study which formed the basis for the profiles used in the ACDI/periodic review, may provide some insight into this question. The study evaluated over 21,000 disability cases, and discontinued benefits in about 7,000 (33 percent). These cases were reviewed by SSA examiners and physicians for changes in the severity of the individual's impairments. Of the 7,000 cases where benefits were terminated, only 51 percent were determined to have medically improved. In 35 percent of the cases, benefits were ceased even though the severity of the impairments was judged to be the same as or worse than when benefits were initially awarded.

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[1] A recently completed study by SSA of over 3,600 decisions by ALJ's highlighted clear differences in adjudicative criteria between the ALJ's and the States as the major reason for the high number of decisions by ALJ's to award benefits. For example, the ALJ's award benefits in 64 percent of the 3,600 cases, whereas SSA's Office of Assessment, using State agency criteria, would have awarded benefits in only 13 percent. The study also highlighted the significant effect of a face-to-face meeting with the claimant.

> Under SSA's operating guides which have been followed by the States for approximately 4 years, disability is found to have ceased when current evidence shows that the individual does not meet the current definition of disability. SSA's policy states that it is not necessary to determine whether or how much the individuals' condition has medically improved since the prior favorable determination.
>
> The possible need for legislation on the medical improvement issue was addressed by a 1976 staff report of the Subcommittee on Social Security, House Committee on Ways and Means, entitled "Disability Insurance—Legislative Issue Paper." SSA's policies since 1969 on CDI terminations had been that it was necessary to have documentation supporting an improved medical condition. The staff report pointed out that: "Revitalization of the CDI program can be carried out administratively, although if it is the subcommittee conclusion that the medical improvement requirement criteria should be altered, this may have to be done by legislation."
>
> SSA dropped its former policy in May 1976, and until now there have been only a few court decisions on the issue. Those decisions have consistently argued for a return to some form of medical improvement.
>
> The legislative history of the 1980 amendments clearly indicates that the Congress was concerned about the individuals who have medically improved and remain on the disability rolls. However, it is not clear what the Congress view was toward those who have not medically improved. Whether the Congress intended that all beneficiaries would be subjected to a "new determination," or whether it expected the earlier decisions to afford some presumptive weight, is an issue that we are still reviewing. Recent decisions in the U.S. courts suggest that the courts believe a degree of "administrative finality" or res judicata effect should prevail on these cases. Several class-action suits are pending which presumably will address this issue.
>
> We believe the Congress should state whether cessations are appropriate for those already on the disability rolls who have not medically improved. There are other matters relating to the medical improvement issue that need to be considered also, such as how to deal with those on the rolls as a result of clear erroneous initial awards, and those that, despite no medical improvement, clearly come under a changed eligibility criteria or definition. We plan to work with the subcommittee or other Members of the Congress in developing these matters further.[13]

In its report, the Senate Subcommittee on Oversight of Government Management (Governmental Affairs) published the following findings:

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[13] Senate Subcommittee on Oversight of Government Management, hearing, pp. 247-251.

The subcommittee's principal finding is that many severely disabled persons are being erroneously terminated from the disability insurance program, only to wait, without benefits, through a lengthy appeals process, after which 67 percent are eventually reinstated in the program.

If present trends continue, by the end of 1983, more than 200,000 people will have had their benefits discontinued, only to have them reinstated many months later after a hearing before an administrative law judge. In the meantime, they will suffer both financial hardship and emotional trauma. Already some disabled people have committed suicide, and others have lost their homes after losing their benefits.

The subcommittee finds that this needless and unjustifiable result is attributable to several factors—some of which are longstanding problems, and others which were created by the way the current reviews were being conducted. The subcommittee found the following:

(1) Many States have been ill-prepared to handle the flood of CDI cases because of insufficient staff to process the reviews. States received less than a month's notice that thousands of CDI cases would be forwarded to their offices. State hiring freezes have prevented some States from hiring needed additional staff. The tremendous increase in reviews has created a severe strain on State agencies' ability to quickly and thoroughly review cases.

(2) The Social Security Administration does not fully inform disability recipients when notifying them that their cases are under review. The letter sent by the SSA does not stress the gravity of the review, but merely says that the agency is checking to determine whether the claimant "continues to meet the eligibility requirements."

Insufficient time is allowed for the recipient to fully respond to the State disability determination.

(3) The initial decision entitling the claimant to benefits is not presumed to be valid. Beneficiaries are having to prove all over again that they are disabled. This burden of proof is not, however, explained to beneficiaries and their doctors, who understandably believe that they have to show only a lack of medical improvement. Inadequate notice to beneficiaries hinders the development of a full and complete medical record. Beneficiaries are not notified that their existing medical history, on file with the Social Security Administration, is not considered in the decision.

(4) State agencies are poorly developing the medical evidence essential to the disability determination. In reviewing claimants' files, States are disregarding any medical evidence that is more than 2 or 3 months old, thus providing a very distorted and incomplete picture of the claimant's condition. Because the SSA does not require a showing of medical improvement before benefits are terminated, many severely disabled people have been dropped from the program, although their medical conditions have actually deteriorated or remain unchanged.

(5) The SSA is placing an undue reliance on consultative examinations in the review process. The high rate of con-

> sultative examinations is attributable to the rush to issue decisions based only on new medical evidence, and to the practice of soliciting information from treating physicians in a format which is not useful to the disability determination.
>
> (6) Different, and in some cases, conflicting standards are used for disability determinations, depending on whether the decision is being made by a State claims examiner or an ALJ. The POMS, which govern State agency decisions and are issued without public review and comment, do not accurately reflect the intent of the Federal regulations, and account in part for the differences in allowance rates at the State and ALJ levels.
>
> (7) The appeals process is clogged and lengthy. On average, a claimant has to wait from 9 months to 1 year to obtain a hearing before an ALJ. There is no face-to-face contact between a decisionmaker and the claimant prior to the ALJ hearing, so that State decisions are based solely on a review of the claimant's file.
>
> The combined effect of these and other factors is that this process is not a "review" of disability at all, but rather a redetermination of disability based on inconsistent and more strict criteria, without notice to beneficiaries or their treating physicians of the true nature of the CDI process.[14]

During the months of June and July 1982, Chairman Heinz, who is also a member of the Senate Finance Committee, pressed for hearings on social security disability within the Senate Finance Committee, which were held on August 18.[15] Senator Heinz analyzed the major problems with the program of continuing investigations. Senator Heinz said:

> The goal of reviewing the disability status of individuals on the social security rolls is a sound and necessary principle, but the current program goes way beyond what Congress envisaged when it mandated the periodic reviews in 1980.

Senator Heinz listed three major shortcomings:

> First, the sheer volume of CDI's is growing at too fast a pace to insure that disability beneficiaries receive the careful, complete medical reviews they deserve.
>
> The second problem is that individuals are being removed from the rolls at a rate that far exceeds what Congress envisaged.
>
> The third major problem with CDI's is that large numbers of individuals, who are ultimately found to be legiti-

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[14] U.S. Congress. Senate. Committee on Governmental Affairs. Subcommittee on Oversight of Government Management. Oversight of the Social Security Administration Disability Reviews. Committee print, 97th Cong., 2d Sess., August 1982, Washington, U.S. Govt. Print. Off., pp. 42-43.

[15] U.S. Congress. Senate. Committee on Finance. Oversight of Social Security Disability Program. Hearing, 97th Cong., 2d Sess., Aug. 18, 1982, Washington, U.S. Govt. Print. Off., 1982.

See also the background book prepared for the above hearing: U.S. Congress. Senate. Committee on Finance. Staff Data and Materials Related to the Social Security Disability Insurance Program. Report printed for the use of the Committee on Finance, August 1982. Washington, U.S. Govt. Print. Off., 1982.

> mately entitled to benefits, are put through a harrowing and unnecessary ordeal. These three systemic problems with the CDI process demand an immediate resolution.
>
> We must slow down the volume of CDI's to a level that is both manageable by State agencies and conducive to high quality reviews.
>
> We must give beneficiaries some additional protection against unfair terminations by requiring the Federal Government to bear the burden of proof that an individual is no longer disabled.
>
> We must extend the availability of benefits through the appeals process to reduce the hardship upon those who are terminated at one level of the Social Security Administration only to be reinstated at a higher level of judicial authority.

At the August 18 hearing of the Senate Finance Committee, Senator Heinz also released the findings of an Aging Committee investigation of the denial of benefits to a mentally disturbed Philadelphia woman, Kathleen McGovern, a paranoid schizophrenic, who had become suicidal as a result of the termination of her social security benefits. Ms. McGovern died in June 1982. Although the Social Security Administration had initially reported to the Aging Committee that the medical denial was proper, a response from Secretary Schweiker to Chairman Heinz' letter acknowledged numerous errors in the way the case was handled.

But the Aging Committee investigation of the Kathleen McGovern case led to a broader concern on the part of Chairman Heinz, that the procedures used to judge the disabilities of all people suffering from mental illness are faulty. Therefore, Senator Heinz initiated a second GAO investigation dealing specifically with this issue. In December 1982, the GAO briefed congressional staff on the preliminary results of its investigation. After examining 75 cases in four States, and after talking to approximately 200 disability examiners in these States (Ohio, Pennsylvania, Indiana, and Illinois), GAO reported that the procedures used to evaluate the claims of individuals with mental illness are, indeed, seriously flawed. In 10 States, GAO found there are no psychiatrists employed by the agencies making the determinations, while in many other States there are shortages of adequate psychiatrists on the staffs of the State agencies. GAO found that people suffering from mental illness were not given a realistic evaluation of their ability to work, and that a pattern of case returns from quality assurance units run by the Social Security Administration caused examiners to emphasize any positive evidence in the individual's file and use that positive evidence on which to base a decision to deny benefits. For example, in one case, where the consultative physician reported to SSA that the claimant was "one of the sickest persons I have ever treated," the individual was denied on the grounds that he could play the piano, watch TV, had friends, and could cook a meal. GAO found that internal SSA memoranda directed State agency decisionmakers to follow a new policy and presume that individuals who failed to meet the medical listings were capable of doing unskilled work, instead of applying the vocational factors as required by law.

Similar findings of fact emerged in U.S. District Court, District of Minnesota, Fourth Division (case No. 4-82-Civ. 83). In this class action suit brought against the Department of Health and Human Services by the Mental Health Association of Minnesota, Federal Judge Earl Larson found this new SSA policy toward mentally disturbed claimants to be "arbitrary, capricious, irrational, and an abuse of discretion." Judge Larson issued a preliminary injunction in December 1982, ordering SSA not to presume that an individual who does not meet the medical listings is capable of doing unskilled work. He ordered that SSA review all claims of all members of the class whose application for benefits was denied on or after March 1, 1981, and that SSA restore all benefits to those who had been terminated since that date, pending a new review of their disability status which the court ordered. The plaintiff class consists of severely mentally ill individuals suffering from psychotic or functional nonpsychotic disorders, whom SSA had determined to be not disabled under the Social Security Act, on the basis that such individuals are capable of engaging in substantial gainful activity. The class consists of both those whose applications for benefits have been denied and those whose benefits have been terminated. The Department of Health and Human Services was, at the time of this publication, reportedly seeking a stay of this preliminary injunction.

On November 19, 1982, Senator Pryor presided over a joint Aging Committee/Governmental Affairs Committee hearing in Fort Smith, Ark., focusing on social security disability and the effects of the triannual reviews of nonpermanently disabled, which were mandated by the Social Security Disability Amendments of 1980. [16]

Public witnesses included social security and supplemental security income disability beneficiaries who had been wrongfully terminated through the review process. All had been reinstated, but only after having gone through a lengthy and difficult appeals process.

Through the testimony of a panel of physicians, the committee learned that, in many cases, consultant physicians for SSA feel that SSA places restrictions on the type of information that they (the physicians) give in their reports—information that might help the claimant receive a more favorable decision. In addition, the physicians believe that SSA does not always ask for the most adequate or pertinent information.

Ken Patton, director of the Disability Determinations Service for the State of Arkansas, also addressed the issue of consultative physicians, and the problems experienced in getting the appropriate doctors to perform consultative exams:

> In the past 14 months we have contacted every physician licensed to practice medicine in the State of Arkansas, and have asked them for the past 8 years to do consultative examinations for our agency. Numerous physicians will not do so because of the low fee schedule * * * We

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[16] U.S. Congress, Senate. Special Committee on Aging. Committee on Governmental Affairs. Social Security Disability. Hearing, 97th Cong., 2d Sess., Nov. 19, 1982, Fort Smith, Ark. Washington, U.S. Govt. Print. Off., 1983.

> have one cardiologist in the State of Arkansas willing to do examinations for us in Little Rock. And I have to beg him repeatedly to stay.

There was widespread agreement that the continuation of benefits through the appeal to the administrative law judge (ALJ) is crucial. A few witnesses also urged that, in cases where a claimant has appealed and the cessation has been reversed, that SSA should be responsible for the payment of attorney fees. In addition, concerns were expressed regarding the disparity between the different criteria being used at different levels of the review process.

Serious problems also emerged from the Fort Smith hearing regarding SSA management practices relative to the administrative law judges. A panel of witnesses consisting of ALJ's from the Fort Smith Office of Hearings and Appeals indicated that this issue should be studied in depth by the Congress during the first session of the 98th Congress.

In summary, a long list of problems became apparent with the accelerated review process in the course of 1982. Large numbers of individuals, nearly half, were being terminated. The procedures used to decide these claims were highly questionable, because of the sharp rise in this volume of cases, from a routine 160,000 reviews per year to roughly 500,000 reviews in fiscal year 1982. Medical evidence gathered in support of the decisions was often found to be inadequate. A tougher adjudicative climate and more strict criteria were being used to remove individuals who had not improved, and had even gotten worse, since the time of their original award. And a particular class of disabled individuals, those suffering from mental illness, were victimized by a process which a Federal district court ruled to be in violation of the law. Although two out of three terminated beneficiaries could receive reinstatement after appeal to an administrative law judge, during the long interval pending appeal—a year or more is not uncommon—individuals went without any benefits whatsoever, sometimes losing their homes as a result. Other beneficiaries actually died of the disabilities which SSA denied they had.

For example, a Los Angeles Times article of September 17, 1982, found 11 cases where individuals died of the very disabilities which the Social Security Administration believed were not sufficiently serious to keep them from working.

On October 5, 1982, Chairman Heinz wrote to Secretary Schweiker asking for:

> * * * a full accounting by the Social Security Administration of all 11 cases * * * What were the disabilities being disputed? What rationale had been developed in each case for terminating or denying benefits? What was the status of the pending appeal where one had been filed? * * *
>
> Beyond the emergency legislation, these 11 deaths demonstrate that comprehensive reform of the process is urgently needed—and that reform must include language to require a showing by the Social Security Administration of medical or vocational improvement in the beneficiary substantial enough to enable a return to work.

I urge the Social Security Administration to come forward with concrete, mutually acceptable reform language, including medical improvement provisions, which Congress may begin to review immediately.

3. SSA-Initiated Changes

As the above-mentioned problems began to unfold and receive attention from the press and from congressional committees, the Social Security Administration undertook efforts of its own to make changes in the review process. At almost every hearing held by the Congress, the Social Security Administration announced some "new" initiatives in this area. Roughly 1 month after the Senate Finance Committee hearing on "Social Security Disability," Social Security Commissioner John A. Svahn sent a letter to Finance Committee Chairman Robert J. Dole on September 16, 1982, describing the initiatives taken by the Administration. The following initiatives are excerpted from Commissioner Svahn's letter to Senator Dole, which was the focus of a hearing before the Social Security Subcommittee of the House Ways and Means Committee on Wednesday, December 8, 1982:

EXCERPT FROM SEPTEMBER 16, 1982, LETTER FROM COMMISSIONER OF SOCIAL SECURITY

1. In March, SSA initiated a policy of determining that, in general, a person's disability ceases as of the time the beneficiary is notified of the cessation. This change reduces situations where the beneficiary is faced with the need to pay back past benefits because of a retroactive determination.
2. Since May, SSA has mandated that States review *all* medical evidence available for the past year—a directive which insures that every State is looking at every piece of evidence that might be pertinent to a case.
3. SSA has underway, in two States, a study to test the value of obtaining more than one special mental status examination in cases where evidence from the beneficiary's treating source is incomplete or inadequate. This is intended to determine whether a person's mental condition can drastically change from one day to another. One criticism of SSA's practice of getting only one mental status examination is that it gives a misleading "snapshot" of a person.
4. Since March, SSA has required State agencies to furnish detailed explanations of their decisions in all cases in which a person's disability has ceased.
5. To insure quality in CDI cases, SSA conducts a quality review of a sample of cases before benefits are stopped. In June 1982, SSA doubled the number of quality reviews of termination cases. The quality has been holding very high at 97.5 percent. In addition, to demonstrate the importance of quality in the CDI process, SSA established an interim accuracy goal for the State agencies without waiting for publication of regulations.

6. SSA has consistently monitored State agency resources and workloads closely and adjusts the flow of cases to the individual States to avoid backlogs when problems have arisen in their acquiring adequate resources. The selective moratoriums on new CDI cases that SSA has implemented for August and September (and even earlier in some States) has been easing problems in specific States that have had unusually large backlogs.

7. Starting in October, SSA will use a new procedure for beginning a CDI review: Each beneficiary will have a face-to-face interview with an interviewer in the local Social Security office. The interviewer will explain how the review works and what the beneficiary's rights are, obtain information about the beneficiary's medical care and treatment and current condition, and—in some cases—conclude the review process where it is clearly warranted based on the beneficiary's current medical condition.

This will correct the single most glaring anomaly in the CDI process. Recipients whose cases are selected for review under the 1980 congressional mandate rarely, if ever, come face-to-face with a decisionmaker until and unless the case is pursued to the third level of review and appeal—a process which may drag on as much as 6 months to a year after benefits have been stopped. This one flaw in the program is perhaps more to blame than any other factor for the seemingly senseless "horror stories" we have all seen from time to time of people being dropped from the rolls despite glaringly obvious disabilities.

8. To improve the quality of determinations in difficult cases where it is necessary to determine a person's capacity to do work-related activities despite a severe impairment, SSA is requiring that the determinations as to remaining capacity be more detailed and explicit so that the basis for the final decision is clear.

9. SSA has taken many actions to improve the quality of consultative examinations purchased by the Government in cases where medical evidence from a person's physician is unavailable or incomplete.

10. SSA has been very sensitive to the need for special handling of cases involving psychiatric impairments. SSA has met with mental health groups to obtain their recommendations for improvements and is reevaluating all guidelines for evaluation of mental impairments. SSA has also encouraged the States to increase the number of psychiatrists on their staffs in order to enhance their ability to review cases involving mental impairments. Secretary Schweiker has asked the American Psychiatric Association for assistance in recruiting psychiatrists for the States.

11. SSA has added more than 140 administrative law judges to what is already perhaps the largest single adjudicative system in the world, bringing their total number to more than 800 and providing them with significantly more support staff to help reduce the backlog of cases that has been a chronic problem in past years.

12. Based on our findings in the first year of the CDI program, SSA has broadened the definition of the permanently disabled who need not be subject to the every 3 year CDI process during the next fiscal year—which will mean reducing the total from about 800,000 to about 640,000—a major reduction in workloads for the State agencies.[17]

4. LEGISLATIVE RESPONSE

Numerous bills were introduced in the Senate and in the House of Representatives addressing, in varying degrees, the problems associated with the program of continuing disability investigations. Aging Committee Chairman Heinz and committee members Cohen and Durenberger, in particular, were strong advocates of the need for both short-term relief and long-term reform of the disability program. A partial list of the bills introduced in the 97th Congress is shown in the following summary prepared by the Congressional Research Service.

HOUSE BILLS

H.R. 5325 (Neal)

Provides that DI benefits shall not be terminated prior to an exhaustion of administrative remedies unless current medical evidence substantiates such termination. Introduced January 25, 1982; referred to Committee on Ways and Means.

H.R. 5684 (Vento)

Continues DI benefits while the beneficiary is appealing the termination decision (benefits would be subject to recoupment if the termination decision is affirmed by the ALJ). Provides that benefits may not be terminated until the individual has been notified. Introduced March 2, 1982; referred to Committee on Ways and Means.

H.R. 6181 (Pickle and Archer)—Originally Introduced as H.R. 5700

Permits a terminated beneficiary to elect to have benefits continue until a reconsideration decision is made (repayment would be required). Through calendar year 1984 provides "adjustment benefits" in cases where benefits have been terminated due to medical cessation for beneficiaries who have been on the rolls for 3 years. Requires a face-to-face evidentiary hearing at the reconsideration level (to be established by January 1984) for medical termination cases and would partially close record for purposes of introducing evidence after the reconsideration determination. Waives overpayment, through calendar year 1984, for benefits paid to disabled beneficiaries prior to their receiving notice of termination due to medical recovery. Establishes a temporary VR program in fiscal years 1983–84 to provide evaluation and job placement services to social security disability beneficiaries terminated due to medical recovery. Introduced April 28, 1982; referred to Ways and Means Committee. Reported, amended, May 26, 1982 (H. Rept. 97-588). The bill was never taken up by the full House.

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[17] U.S. Congress. House. Committee on Ways and Means. Subcommittee on Social Security. Continuing Disability Investigations. Hearing, 97th Cong., 2d Sess., Dec. 8, 1982. Washington, U.S. Govt. Print. Off., 1983.

H.R. 6731 (Frank)

Provides that no disability benefits may be terminated unless SSA makes a showing that there has been medical improvement in the beneficiary's condition using the standards in effect at the time of the initial decision or that the initial decision was clearly erroneous (would not apply to cases of fraud or to terminations based on a finding that the individual was engaging in substantial gainful activity). Requires SSA to promulgate uniform standards for disability determinations which would be applicable to all levels of decisionmaking. Continues benefits, including medicare and medicaid, until the decision by the ALJ. Benefits paid during the appeals process would be treated as overpayments if the decision to terminate is affirmed by the ALJ. Requires SSA to transmit quarterly reports to the Congress documenting the number of termination decisions made, the number of hearings requested, and the number of termination decisions overturned on appeal. Introduced July 12, 1982; referred to Committee on Ways and Means.

H.R. 6746 (Heckler)

Provides that disability benefits may not be terminated prior to the completion of the reconsideration process including an evidentiary hearing. Continues medicare entitlement through the administrative appeals process and requires the Secretary of Health and Human Services to make quarterly reports to Congress on the results of periodic reviews of disability determinations. Introduced July 13, 1982; referred to Committee on Ways and Means.

H.R. 6837 (Davis)

Eliminates the State agency reconsideration for continuing disability investigations and extends, by 4 months, the "grace period" in which benefits can be paid while the appeal is pending (benefits paid would be considered overpayments if the ALJ affirms the earlier decision to deny benefits). Resumes disability benefits if a hearing decision is not rendered within 9 months from the date the hearing request was filed. Requires all review levels to use the same disability eligibility guidelines determined by statute or subject to Federal rulemaking requirements. Prohibits SSA from finding that a beneficiary can return to work unless a medical improvement can be demonstrated in the beneficiary's condition. Any reexamination of eligibility made subsequent to the review made within 3 years after the initial determination would be conducted at the discretion of the Secretary of Health and Human Services. Introduced July 22, 1982; referred to Committee on Ways and Means

H.R. 6888 (Quillen)

Amends title II (old-age, survivors, and disability insurance) of the Social Security Act to (1) expedite the appeals process with respect to disability determinations; (2) extend the period before the termination of disability benefits for beneficiaries whose disabilities have ceased; (3) provide for the resumption of disability benefits if a decision on appeal has not been made in 9 months; (4) prohibit the termination of disability benefits unless it is based upon medical improvement of the physical or mental impairment involved; (5) revise the rules for periodic review of disability determinations; and (6) require standards at all levels of adjudication in making disability determinations. Introduced July 28, 1982; referred to the Committee on Ways and Means.

H.R. 6971 (Conte et al.)

Amends title II (old-age, survivors, and disability insurance) of the Social Security Act to (1) prohibit the termination of disability benefits unless it is based on medical improvement of the impairment involved; (2) revise the rules for periodic review of disability determinations; and (3) permit disability benefits to continue to be paid during the administrative appeals process. Introduced August 11, 1982; referred to Committee on Ways and Means.

H.R. 7004 (Edgar)

A bill to place a moratorium on continuing disability investigation terminations under titles II and XVI of the Social Security Act. Prohibits the Secretary of Health and Human Services from terminating disability benefits under title II and title XVI of the Social Security Act on the basis of continuing disability investigations. Introduced August 18, 1982; referred to Committee on Ways and Means.

H.R. 7035 (Hammerschmidt)

Amends title II (old-age, survivors, and disability insurance) of the Social Security Act to (1) permit the continued payment of disability benefits during the administrative appeals process; (2) revise the rules for periodic review of disability determinations; (3) subject rules, regulations, and procedures governing disability determinations to applicable law; (4) establish new standards to govern disability benefit terminations; and (5) require notice and opportunity for an interview with respect to continuing disability reviews in cases of mental impairment. Introduced August 19, 1982; referred to Committee on Ways and Means.

H.R. 7133 (McDade)

Amends title II (old-age, survivors, and disability insurance) of the Social Security Act to (1) permit the continued payment of disability benefits during the administrative appeals process; and (2) revise the basis for findings of ability to engage in substantial gainful work in disability determinations. Introduced September 16, 1982; referred to Committee on Ways and Means.

H.R 7136 (Perkins)

A bill to provide for a moratorium on terminations of disability benefits under title II of the Social Security Act based on determinations under such program and to amend such title II to provide for continued payment of disability benefits during appeal of terminations of such benefits. Prohibits the termination of disability benefits under title II of the Social Security Act and the collection of benefits determined to be overpayments on the basis of continuing disability investigations. Permits the continued payment of disability benefits during the administrative appeals process. Introduced September 16, 1982; referred to Committee on Ways and Means.

SENATE BILLS

S. 1944 (Levin)

Continues DI benefits through the administrative appeals process (including Appeals Council review, if any) provided SSA cannot produce current medical evidence to show improvement in the beneficiary's medical condition. If the termination is upheld benefits would have to be repaid. Introduced December 11, 1981; referred to Committee on Finance.

S. 2086 (Metzenbaum, et al.)/H.R. 6219 (Emerson)

Modifies the procedures used by SSA and State agencies for continuing disability reviews by providing beneficiaries with 30 days in which to obtain and submit recent medical evidence from their own personal physicians. In cases where there is a "substantial" difference of opinion as to impairment severity between the beneficiary's physician and the consulting physician selected by the Government, then benefits would continue until the ALJ reaches a decision. Continues DI benefits through the ALJ decision and waives repayment if the beneficiary is "substantially dependent" on those benefits. S. 2086 introduced February 9, 1982; referred to Committee on Finance. H.R. 6219 introduced April 29, 1982; referred to Committee on Ways and Means.

S. 2659 (Sasser)

Provides that disability benefits may not be terminated prior to completion of the reconsideration process including an evidentiary hearing. Continues medicare entitlement through the administrative appeals process and requires the Secretary of HHS to make quarterly reports with respect to the results of periodic reviews of disability determinations. Introduced June 22, 1982; referred to Committee on Finance.

S. 2674 (Cohen, Levin)

Eliminates the reconsideration stage in the disability appeals process and requires a showing of medical improvement or an error in the initial decision before benefits can be terminated. Requires uniformity in the standards used for reviewing eligibility throughout the system and provides payment of benefits through the ALJ stage. (These benefits would have to be repaid if the termination decision was affirmed by the ALJ.) Introduced June 24, 1982; referred to Committee on Finance.

S. 2725 (Cohen, Levin)

Continues DI and medicare benefits through the ALJ decision. These benefits would be subject to recoupment if the beneficiary is found by the ALJ to be no longer disabled. Directs the Secretary of Health and Human Services to slow down the periodic review of DI cases so as to assure that adequate personnel are available to the State agencies. Introduced July 13, 1982; referred to Committee on Finance.

S. 2730 (Heinz, et al.)

Halts, until January 1983, all continuing disability investigations other than those involving "diaried" cases (cases in which medical recovery seems likely at the outset), or cases with workers returning to work, or defrauding the Government. Introduced July 14, 1982; referred to Committee on Finance.

S. 2731 (Heinz, Durenberger)

Continues benefits until a reconsideration decision is made (or until the ALJ decision if no opportunity was offered for a full evidentiary hearing at reconsideration) plus 2 months of adjustment benefits for those who had been on the rolls for at least 3 years (expires January 1, 1985). Benefits paid during appeal are subject to repayment but medicare and adjustment benefits are not. No benefits are payable if the worker is engaging in substantial gainful activity or if there is evidence of fraud. Modifies the continuing disability review process by permitting SSA to review cases on the rolls prior to the 1980 amendments on a different schedule than once every 3 years, and to restrict the circumstances in which benefits can be terminated when there is no evidence of medical improvement since the original determination of disability. Requires by January 1, 1984, both denied claimants and terminated beneficiaries be given the opportunity to have a full evidentiary hearing at reconsideration. Introduced July 14, 1982; referred to Committee on Finance.

S. 2739 (Metzenbaum, et al.)

Provides that current DI beneficiaries may not be terminated from the rolls unless their medical condition has improved since they were initially determined eligible or unless that initial determination was "clearly erroneous" under the medical criteria in effect at that time. (Beneficiaries earning above the SGA level would be terminated regardless.) Continues DI and medicare benefits pending the ALJ decision for those who appeal the initial determination decision. Those who lose on appeal would be required to pay back cash benefits but not the medicare benefits. Requires SSA to "make all reasonable efforts" to obtain current medical evidence from the beneficiary's treating physician before ordering a consultative examination. Requires SSA to consider impairments disabling, even if not listed in the regulations, if they are of equal severity. Introduced July 15, 1982; referred to Committee on Finance.

S. 2776 (Riegle, et al.)

Requires SSA to document medical improvement or that the original decision granting benefits was clearly erroneous in order to terminate disability benefits. Slows down the CDI process by limiting the number of new DI beneficiaries who joined the rolls in the preceding calendar year. Continues disability benefits up through the ALJ level, subject to recoupment if the hearing decision affirms that the individual is no longer disabled. Introduced July 26, 1982; referred to Committee on Finance.

S. 2942 (Cohen, et al.)

Amends title II (old-age, survivors, and disability insurance) of the Social Security Act to permit the continued payment of disability benefits during the administrative appeals process. Provides that the periodic reviews of disability determinations required under title II shall be carried out only to the extent necessary to insure that the appropriate number of cases are reviewed. Introduced September 23, 1982; referred to Committee on Finance; ordered to be reported favorably, September 28, 1982, as an amendment to H.R. 7093.

S. 2952 (Thurmond)

Amends title II (old-age, survivors, and disability insurance) of the Social Security Act to permit the continued payment of disability benefits during the administrative appeals process. Introduced September 23, 1982; referred to the Committee on Finance.

Senate legislative action on disability became particularly important after the leading bill in the House of Representatives, H.R. 6181 (originally introduced as H.R. 5700), was withdrawn from consideration by its principal sponsor, Representative J. J. Pickle. Advocates of the need for change in the CDI process had nonetheless opposed H.R. 6181 primarily because of two provisions which restricted the evidence which a terminated beneficiary could present to the administrative law judge (section 5), and which imposed a requirement that uniform standards be promulgated by the Secretary of Health and Human Services without any public comment on the new rules (section 7).[18]

In introducing two pieces of legislation on July 14, 1982, Chairman Heinz pointed out that while the various bills introduced by Senators certainly differed in detail, they were:

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[18] For example, see the testimony of Eileen P. Sweeney in behalf of the National Senior Citizens Law Center, Gray Panthers, and Legislative Council of Older Americans, Inc.; U.S. Congress. House. Committee on Ways and Means. Subcommittee on Social Security. Hearings on H.R. 5700. 97th Cong., 2d Sess., Mar. 16 and 17, 1982, Serial 97-54. Washington, U.S. Govt. Print. Off., 1982.

> Unanimous in conveying the message that Congress must act immediately to end the injustice to hundreds of thousands of the most vulnerable people in this society.[19]

S. 2730, introduced by Senator Heinz and cosponsored by Aging Committee members Durenberger and Chiles, would have placed a temporary moratorium on the accelerated disability reviews, with two kinds of exceptions. First, it would not apply to persons notified that they were considered likely to recover at the time they were awarded benefits. Second, it would not have applied to those cases where SSA officials found fraud, or abuse, or that the individual was working. The moratorium would have lasted through the end of 1982. As mentioned above, the Social Security Administration announced at the August 18 hearing of the Senate Finance Committee that it had adopted a selective moratorium, i.e., it sent no additional review cases to States with very high CDI backlogs, for all or part of the first quarter of the fiscal year 1983.

S. 2731, introduced by Senators Heinz and Durenberger, was intended to be a comprehensive reform of the continuing disability review program. It would have slowed down the rate at which reviews are conducted, and, most importantly, it would have required that SSA find substantial medical or vocational improvement in the individual before terminating benefits. It provided for continuation of benefits through the appeals process and required a gathering of all medical evidence. The bill contained a special provision for the mentally disabled. Finally, in order to ease the transition back to work for those whose benefits are ultimately terminated, S. 2731 would have provided an additional period of cash benefits and vocational rehabilitation benefits.

Similar legislation was introduced by Aging Committee member William Cohen, and all the Senate bills were referred to the Senate Finance Committee, where a hearing was held on August 18.

Subsequent to that hearing, Aging Committee staff and Finance Committee staff, along with the staff of committee members Cohen and Durenberger, and others, met with Social Security Administration officials to work out an emergency piece of legislation alleviating the major problems with the CDI's. After these meetings, S. 2942, introduced by Senators Cohen, Levin, Heinz, Durenberger, and others, was reported out of the Finance Committee, with modifications, as an amendment to H.R. 7093, the Virgin Islands tax bill. Consideration of the bill was blocked on October 1, the last day of the session before the fall recess, because of an objection on the Senate floor by Senator Russell Long.[20] During the "lame-duck" session of Congress, however, H.R. 7093 passed the Senate by a 70-4 vote on December 3, 1982. The bill was further modified in the House, and a conference committee was appointed. The conferees issued their report on December 21,[21] and the conference report was agreed to by the House and the Senate that same day—with no opposition in either chamber. It was signed by President Reagan on January 12, 1983, as Public law 97-455.

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[19] Heinz, John. Remarks in the Senate. Congressional Record, Daily Edition, v. 128, July 14, 1982, pp. S 8246-8255.

[20] Congressional Record, Daily Edition, v. 128, Oct. 1, 1982, pp. S13116-13124.

[21] U.S. Congress. Conference Committees, 1982. Taxes on Virgin Island Source Income; Disability Benefits. Conference Report to Accompany H.R. 7093. House Report No. 97-985, 97th Cong., 2d Sess., Washington, U.S. Govt. Print. Off., 1982

The four disability provisions of Public Law 97-455: (1) Continue disability benefits through the administrative law judge's decision for those recipients terminated prior to October 1, 1983; (2) allow the Secretary of Health and Human Services to waive the 3-year periodic review requirement in those States where it is appropriate, taking into consideration the backlogs of CDI's, new disability insurance applications, and projected staffing levels of the State agency; (3) require that SSA offer the individual terminated from the rolls the opportunity for a face-to-face hearing at the first appeal stage (reconsideration) no later than January 1, 1984; and (4) require semiannual reports to Congress on the number of disability beneficiaries reviewed, terminated, and reinstated on appeal. All four of these basic provisions can be found in S. 2731, the legislation introduced by Chairman Heinz and Senator Durenberger on July 14, 1982.

In supporting H.R. 7093, Senator Heinz and Senator Cohen clarified that this was an emergency provision to provide immediate relief, but that comprehensive reform legislation will still be required early in the first session of the 98th Congress.[22] In particular, Chairman Heinz emphasized the need for a strong medical improvement standard to protect beneficiaries from arbitrary denials of their benefits, and the need for vocational rehabilitation to ease the return to work for those who are capable.

F. STATUS OF THE DISABILITY PROGRAM

Average monthly disability benefits and a State-by-State distribution of payments, are shown in the following tables.

TABLE 11.—SOCIAL SECURITY DISABILITY: CASH BENEFITS AWARDED AND IN CURRENT-PAYMENT STATUS, NOVEMBER 1982

Type of beneficiary	Benefit awards		Benefits in current-payment status		
	Number	Average amount	Number	Average amount	Monthly amount (in thousands)
Disabled workers, spouses, and children	49,806		4,003,560		1,333,291
Disabled workers	24,869	$439.28	2,616,165	$441.40	1,154,780
Men	17,486	487.38	1,754,675	486.29	853,287
Women	7,383	325.37	861,490	349.97	301,493
Wives and husbands	5,975	122.01	370,503	129.77	48,079
Children	18,962	124.85	1,016,892	128.27	130,433

Source: Social Security Administration.

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[22] Congressional Record, daily edition, v. 128, Dec. 3, 1982. pp. S13850-S13869.

TABLE 12.—SOCIAL SECURITY DISABILITY INSURANCE STATE PAYMENTS BY PROGRAM, CALENDAR YEAR 1981

(in thousands)

State	Disability program		
	Total	Disabled workers	Dependents
Total	$17,199,424	$14,378,835	$2,820,589
Alabama	355,366	291,491	63,875
Alaska	11,468	9,396	2,072
Arizona	213,550	179,162	34,388
Arkansas	249,923	205,552	44,371
California	1,739,672	1,486,434	253,238
Colorado	147,213	122,397	24,816
Connecticut	184,052	158,030	26,022
Delaware	44,755	37,781	6,974
District of Columbia	36,653	32,560	4,093
Florida	904,010	768,729	135,281
Georgia	478,862	398,430	80,432
Hawaii	42,355	35,558	6,797
Idaho	53,698	44,966	8,732
Illinois	683,184	577,750	105,434
Indiana	392,757	326,185	66,572
Iowa	158,786	133,426	25,360
Kansas	120,702	102,268	18,434
Kentucky	354,050	284,500	69,550
Louisiana	353,169	282,493	70,676
Maine	86,836	72,091	14,745
Maryland	244,281	208,268	36,013
Massachusetts	363,492	306,880	56,612
Michigan	747,495	621,408	126,087
Minnesota	186,853	156,617	30,236
Mississippi	244,382	199,846	44,536
Missouri	393,218	328,162	65,056
Montana	52,949	43,628	9,321
Nebraska	76,587	64,480	12,107
Nevada	53,698	46,161	7,537
New Hampshire	55,278	46,439	8,839
New Jersey	554,827	471,819	83,008
New Mexico	91,505	72,580	18,925
New York	1,445,343	1,214,433	230,910
North Carolina	489,512	414,220	75,292
North Dakota	27,424	22,609	4,815
Ohio	834,934	696,625	138,309
Oklahoma	217,882	181,301	36,581
Oregon	185,630	157,635	27,995
Pennsylvania	962,044	820,170	141,874
Rhode Island	80,190	68,772	11,418
South Carolina	274,818	231,357	43,461
South Dakota	34,962	29,182	5,780
Tennessee	409,807	340,489	69,318
Texas	770,324	636,410	133,914
Utah	55,529	45,962	9,567
Vermont	36,636	30,496	6,140
Virginia	383,301	319,166	64,135
Washington	261,560	221,556	40,004
West Virginia	246,506	197,749	48,757
Wisconsin	299,277	249,214	50,063
Wyoming	16,614	13,817	2,797
American Samoa	601	415	186
Guam	1,066	800	266
Puerto Rico	428,235	323,698	104,537
Virgin Islands	2,763	2,187	576
Abroad	58,819	45,068	13,751
U.S. areas	21	17	4

At the close of 1982, the disability insurance trust fund is in sound financial shape and is projected by the Social Security Trustees to be in surplus for the next 75 years.

The number of disabled workers awarded benefits in 1982 was 298,531, a decline of 13.5 percent from the previous year, and the lowest annual figure since 1966. The gross disability incidence rate for 1982 was 2.9 awards per 1,000 insured workers, which was 15 percent below the figure for 1981, which had been the lowest in the history of the DI program. The disability incidence rate has been below 4 in only 4 years—1964, 1980, 1981, and 1982.

The tightening of the disability program is apparent, as well, in the total number of terminations from the program, which was 471,337 in 1982—44,000 more terminations than in 1981, which had been the highest in the program's history. Although the terminations reflect all those who were removed from the rolls for any reason (including death or the attainment of age 65), the tremendous recent increases in disabled worker terminations are clearly the result of the periodic review process.

The periodic review process will certainly be the subject of congressional activity and legislation in 1983. The legislation passed in the 97th Congress was clearly understood to be an emergency measure, pending a comprehensive reform in 1983.

In addition, the upcoming debate over social security financing could well involve the disability program as well, to the extent that any long-term financing options considered involve an increase in the retirement age or a reduction in early retirement benefits.

The relative advantages and disadvantages of raising the normal retirement age and the impact on the disability program were discussed in testimony before the Senate Special Committee on Aging in a September 1981 hearing on long-term social security financing. Dr. Alicia Munnell, vice president of the Federal Reserve Bank of Boston and the author of "The Future of Social Security,"[23] said:

> I argue for extending the retirement age provided you have a good additional program to pick up.

Dr. Munnell pointed out it is essential to remember that some older workers will not be able to engage in gainful employment past age 62 and must have access to some form of income support. If they are prevented from working by physical disability, the appropriate way to provide for them is an expanded disability insurance program. While current law makes some allowance for age in determining disability by applying a more liberal test to those age 60 or older, more explicit recognition of the interaction of age and physical impairment may be required. An appropriate procedure might be one analogous to the sliding scale used to determine eligibility for veterans' disability pensions. Under this procedure, permanent and total disability is required for receipt of pensions before age 55; 60 to 70 percent disability is sufficient between the ages of 55 and 59, and only 50 percent disability is required between 60 and 64. An expanded disability program is a crucial prerequisite to extending the retirement age.

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[23] The Brookings Institution. Washington, D.C. 1977.

In addition, Dr. Munnell said some older workers may not be able to find jobs because they have been displaced by automation. These aged will not have access to disability insurance and may face a severe loss of income as a result of extending the social security retirement age. The changing characteristics of the workplace, however, indicate that the number of healthy, unemployed aged may be quite small. While retraining older workers is generally considered impractical today, restructuring jobs for older employees may become economical in the tight labor markets forecasted after the turn of the century.

Professor Peter Diamond from the Massachusetts Institute of Technology pointed out those retiring early are a particulary vulnerable population.

> My sense is that these are people with health problems not severe enough to receive disability benefits and, second, these are people with long-term unemployment. We do not have any other programs to deal with these people.

For similar reasons, the 1979 advisory council unanimously recommended consideration of a special unemployment benefit program for older workers.

The point is this: Whatever action Congress takes on retirement age changes, they should be carefully evaluated to assess their impact on disabled workers in their fifties and sixties with health problems that prevent them from doing their usual work but which are not severe enough to qualify them for a total disability program. Many of these workers will have the wrong kind of skills and/or live in communities where they will not be able to find new jobs and work until normal retirement age.

G. NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

As discussed in the previous chapter, the National Commission on Social Security Reform issued its report in January 1983. Although the Commission's recommendations did not include any recommended changes in the disability benefits for disabled workers, the Commission did include two disability-related recommendations in its consensus package.

First, the National Commission recommended that the proposed OASDI tax rates should be allocated between the OASI and DI trust funds in a manner different from present law, so that both funds will have about the same reserve ratios. As shown earlier, the disability insurance trust fund is projected to have ever mounting reserves in the next 75 years, while the OASI program is underfinanced.

Second, the National Commission recommended that the benefit rate for disabled widows and widowers aged 50 to 59 at disablement would be the same as that for nondisabled widows and widowers first claiming benefits at age 60 (i.e., 71.5 percent of the primary insurance amount), instead of the lower benefit rates under present law, which rise gradually from 50 percent at age 50 to 71.5 percent for disablement at age 60. Such a change, the Commission stated, would not only be applicable to new cases, but would also be applicable to beneficiaries of this category who are on the rolls on the effective date of the provision.

As introduced on January 25, 1983, the Senate bill implementing the Commission's recommendations included both of the above items. The improvement in disabled widows and disabled widowers benefits would become effective for months after December 1983.

Chapter 6

SAVINGS

OVERVIEW

In 1982, major changes in tax law took effect, aimed at improving tax incentives to encourage personal saving for retirement. These are the result of the Economic Recovery Tax Act of 1981, in which Congress heeded the recommendations of various retirement income advisory groups and (1) raised the limits on tax deductible contributions to individual retirement accounts (IRA's) and Keogh accounts for the self-employed; (2) extended eligibility for IRA's to a broad new population previously excluded; and (3) changed the tax incentives for employee stock ownership plans (ESOP) in an effort to encourage the spread of such plans. Further changes were made in Keogh plans, as part of the Tax Equity and Fiscal Responsibility Act of 1982.

A. INTRODUCTION

In 1981 and 1982, public policy has placed considerable emphasis upon stimulating the growth of the national economy by encouraging investment. Any increase in investment in the economy must be accompanied by a corresponding increase in saving. Total national saving comes from three sources: Individuals save out of their personal income; businesses retain, and thereby save, some of their profits; and governments save when they run a budget surplus or dissave when they run a budget deficit. It is total national saving that supports total investment in the economy. A portion of saving flows into residential investment, investment in inventories, and net foreign investment (exports minus imports). The remainder is available to finance business purchases of plant and equipment.[1]

This chapter on savings will, however, focus exclusively upon personal savings as a potential source of income to individuals in retirement. It is important to stress at the outset that accurate data on savings patterns of individuals are scarce, and the opinions of experts interpreting the data are often controversial. We do know that the rate of personal saving in the United States has tended to be relatively constant, i.e., there have been cyclical changes during which the personal saving rate moves up and down, depending on the economy, but by and large, personal saving rates have fallen within rather narrow bounds. The following table shows personal saving as a percent of disposable personal income from 1929 to 1982.

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[1] See: U.S. Library of Congress. Congressional Research Service. Capital, Credit, and Crowding Out: Cycles and Trends in Flows of Funds Over Three Decades, by William Jackson. CRS Report No. 82-142E. Washington, 1982.

TABLE 1.—*Personal saving as a percent of disposable personal income, 1929–81*

Year:	
1929	4.0
1933	−2.0
1939	3.1
1940	4.5
1941	11.2
1942	23.3
1943	24.7
1944	25.2
1945	19.2
1946	8.6
1947	3.1
1948	5.9
1949	4.0
1950	5.8
1951	7.1
1952	7.3
1953	7.3
1954	6.6
1955	6.0
1956	7.3
1957	7.2
1958	7.4
1959	6.2
1960	5.6
1961	6.3
1962	6.0
1963	5.4
1964	6.7
1965	7.1
1966	7.0
1967	8.1
1968	7.1
1969	6.4
1970	8.0
1971	8.1
1972	6.5
1973	8.6
1974	8.5
1975	8.6
1976	6.9
1977	5.9
1978	6.1
1979	5.9
1980	5.8
1981	6.4
1982	[1] 6.5

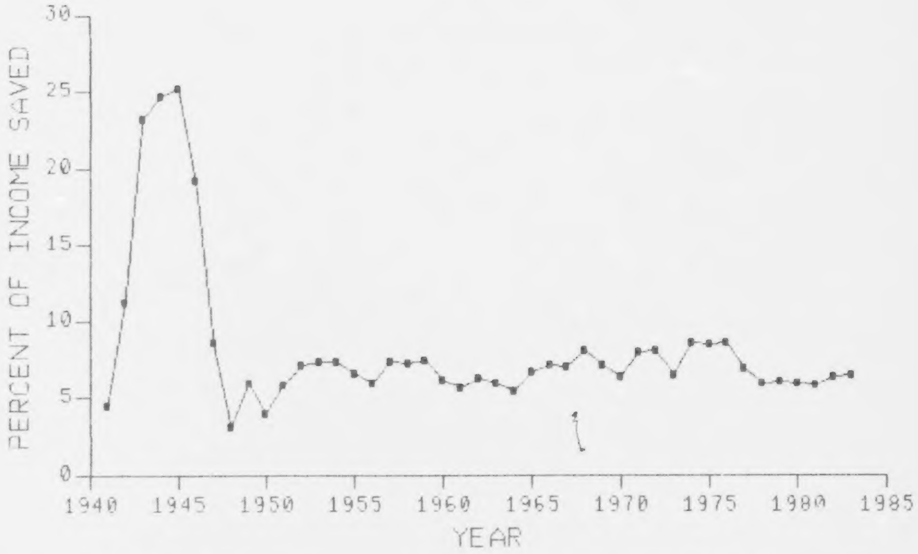
[1] Preliminary estimate.

Source: Department of Commerce, Bureau of Economic Analysis.

Except for the World War II period, when savings were as high as 25 percent of personal income because production focused on the war effort, the saving rate has more or less fluctuated between 5 to 8 percent of disposable income during the postwar period.

CHART 1

PERSONAL SAVING RATE
1940-1982



SOURCE: DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS

Cyclical changes, however, can also be important. Since 1975, for example, when the personal saving rate was 8.6 percent of disposable income, it declined to 6.4 percent of disposable income in 1981. A number of factors have been cited to explain the recent low saving rate. These include the high proportion of the work force consisting of younger people, who tend to save less; the increased number of two-earner households; and the efforts to maintain consumption patterns in the face of inflation. Another factor cited has been the failure of tax policy to adequately reward saving, while making consumer debt relatively more attractive because of the tax deductibility of interest on consumer debt.[2]

The recent cyclical downturn aside, however, it is also true that personal saving in the United States has been substantially below the saving rate of other industrialized countries. The following table and chart illustrate that in the other industrialized countries of the world individuals tend to save two or three times as much of their personal income as do Americans. (This disparity is clearly visible despite technical differences in definitions of saving and investment across countries.)[3]

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[2] U.S. Board of Governors of the Federal Reserve System. Public Policy and Capital Formation. Washington, U.S. Govt. Print. Off., 1981, pp. 100-162. See also: U.S. Library of Congress. Congressional Research Service. Saving and Rate of Return Incentives: Estimates of the Interest Elasticity of Personal Saving, by William Jackson. CRS Report No. 81-198E. Washington, 1981.

[3] U.S. Board of Governors, pp. 59-74.

TABLE 2.—*Personal saving rates in the United States and other countries, 1981* [1]

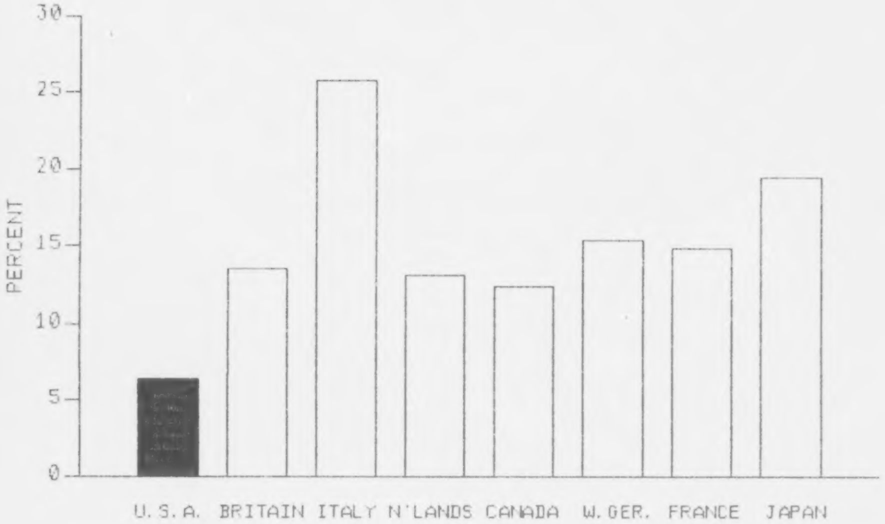
	Percent
United States	6.4
France	14.8
West Germany	15.3
Italy	25.7
Netherlands	13.1
Great Britain	13.5
Japan [2]	19.4
Canada	12.4

[1] Ratio of savings to disposable personal income (percent).
[2] 1980.

Source: U.S. Department of Commerce, International Economic Indicators, vol. VIII, No. 4, December 1982.

CHART 2

PERSONAL SAVING RATES
IN THE UNITED STATES AND OTHER COUNTRIES, 1981



SOURCE: U.S. DEPARTMENT OF COMMERCE, INTERNATIONAL ECONOMIC INDICATORS, VOL. 8, NO. 4, DECEMBER 1982

B. RELATIONSHIP BETWEEN AGE AND SAVINGS

For many years, a so-called life-cycle theory of saving has been advanced by some analysts, which has postulated that individuals save very little as young adults, increase their savings in middle age, and then live off those savings in retirement, i.e. dissave. Thus, according to this theory, individuals entering retirement age would not be expected to save any more of their income, and they would be expected to deplete the savings they had previously accumulated.

The truth of the matter is that accurate, current data about the relationship between age and savings are not available. There are problems inherent in conducting surveys of individuals and asking what their assets are and how much income they derive from those assets. Such surveys, moreover, are expensive.

Nevertheless, two surveys of this subject were done in the 1960's and 1970's, the Survey of Changes in Family Finances (SCFF) commissioned by the Federal Reserve Board, and the Department of Labor's Personal Consumption Expenditure Surveys (CES).

TABLE 3.—SURVEY OF CHANGES IN FAMILY FINANCES: SAVINGS AS A PERCENT OF TOTAL INCOME [1]

	Age of head					
	Under 35	35 to 44	45 to 54	55 to 64	65 plus	All
Total assets	6.56	5.84	8.04	3.51	5.98	6.17
Business assets	1.75	−.57	1.21	−1.92	1.43	.36
Liquid assets	−.10	3.58	6.33	3.78	5.16	3.73
Checking deposits	.12	.28	.83	.74	.98	.54
Saving accounts	.35	3.01	4.49	2.60	4.26	2.74
Saving bonds	.13	.29	1.01	.43	.22	.46
Investment assets	4.37	2.19	−.62	1.12	−1.01	1.41
Miscellaneous assets	.05	−.11	.07	−.50	−.18	−.10
Retirement assets	.50	.76	1.05	1.03	.28	.77
Total debt	−14.84	−3.25	2.99	.39	−4.75	−3.64
Home	−12.77	−3.49	2.42	.38	.62	−2.85
Investment	1.91	1.23	.20	.27	−5.07	−.62
Personal	.16	−.97	.78	−.35	−.42	−.12
Installment	.46	.52	.99	−.69	.66	.44
Auto	.09	.49	.67	−.29	.10	.24
Nonauto	.55	.03	.33	−.40	.56	.20
Noninstallment	−.30	−1.49	−.21	.34	−1.08	−.55
Life insurance	−.32	−.02	−.02	.09	.12	−.05
Housing expenditures	19.52	6.31	2.13	3.65	−2.23	6.79
Auto expenditures	6.21	5.25	4.83	5.90	2.28	5.16
Net financial investment	−8.27	2.59	11.03	3.90	1.23	2.53
Total savings	17.49	11.19	18.29	13.45	1.28	14.47

[1] Calculated from SCFF data tape (N=2,159). Income is the total income received in the calendar year by all members of the consumer unit before any payroll or income tax deduction.

Source: Wachtel, Paul. The Impact of Demographic Changes on Household Savings, 1950–2050. President's Commission on Pension Policy. Coming of Age: Toward a National Retirement Income Policy, technical appendix, Ch. 30.

These two surveys (tables 3 and 4) show that individuals do indeed tend to save more in middle age than they do in their youth or in old age. But the data also indicate that the elderly do continue to save at a rate that is not far from the national average, as shown by the saving rate by age of household head (table 5). There is little convincing evidence which shows that individuals generally exhaust or deplete their assets during retirement, and there is some opposing evidence which indicates that asset levels remain relatively constant during the retirement period.

TABLE 4.—CONSUMER EXPENDITURE SURVEY: SAVING AS A PERCENT OF BEFORE-TAX INCOME

	Age of head						
	Under 25	25 to 34	35 to 44	45 to 54	55 to 64	65 and over	Total
	Net changes in assets and liabilities						
Survey:							
1960-61	2.56	2.50	3.02	3.98	4.71	2.72	3.19
1972-73	5.92	8.36	8.18	7.75	9.37	5.62	7.22
	Net changes in assets						
1960-61	11.90	14.54	8.39	7.52	5.99	2.00	8.39
1972-73	12.90	22.59	13.13	9.84	9.22	6.30	12.82
	Net changes in liabilities						
1960-61	14.46	12.05	5.38	3.53	1.28	0.27	5.20
1972-73	18.82	14.61	4.99	2.09	.15	.68	5.60

Source: Wachtel, Paul. The Impact of Demographic Changes on Household Savings, 1950-2050.

TABLE 5.—*Saving rate by age of household head*

	Percent saving rate[1] *1972-73*
Age of household head (years):	
Under 25	−6.9
25 to 34	9.4
35 to 44	9.7
45 to 54	9.2
55 to 64	11.2
65 and over	6.1

[1] Saving as percent of disposable personal income.

Source: Economic Report of the President, January 1979, p. 116.

A survey conducted in the summer of 1981 by Louis Harris & Associates and commissioned by the National Council on the Aging, Inc., found that even though the elderly had incomes only half as great as those between 18 and 54, the elderly seem to be coping almost as well. Louis Harris asked:

> How come? First, 66 percent of those 65 and over own their houses free and clear, while this is the case with only 12 percent of those between 18 and 54. Second, by any measure, the elderly are more frugal and experienced in the handling of their money. For example, in the last year, only 39 percent of elderly had to draw down on their savings to pay bills, while a much higher 52 percent of those under 65 had to do the same, even though both groups have the same number, 88 percent, who have a savings account.

Surveys of savings and loan association depositors conducted by the U.S. League of Savings Associations in late 1981 and early 1982 confirm these findings that the elderly continue to save at relatively high rates; i.e., they save a high proportion of their income, but because income tends to decline with retirement the *flow* of saving from retirees also declines.[4]

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[4] Christian, James W. Tax Incentives for Saving: The Idea and the Evidence. Paper by Chief Economist, Staff Vice President and Director, Economics Department, U.S. League of Savings Associations. Chicago, Ill., 1982.

Drawing on a nationwide random sample of more than 24,000 savings association depositors, questionnaire respondents were asked, among other things, to indicate their age, income and the amount they expected to save in 1982. Table 6 summarizes these responses by age group against median income and median expected saving. The implied saving rate for each of the age groups clearly shows the sharp increase after age 45 that the life cycle of saving predicts and the decline in saving *flow* after age 65, even though the saving *rate* continues to increase.

TABLE 6.—THE LIFE CYCLE OF SAVING

Age group	Median household income	Median expected household saving	Implied saving rate (percent)
18 to 24	$18,544	$840	4.5
25 to 34	28,476	1,267	4.4
35 to 44	35,730	1,687	4.7
45 to 54	36,620	2,310	6.3
55 to 64	31,188	2,949	9.5
65 and over	22,081	2,490	11.3

Source: U.S. League of Savings Associations, Economics Department, The All Savers Survey Project, 1981–82.

It must be emphasized, however, that savings and loan association depositors differ somewhat, particularly among the 65 and over age group, from the population at large. The median income of savings association depositors is higher in all age groups than either the population at large or the population of depositors in all financial institutions. This characteristic is especially prominent in the 65 and over age group. For this reason, savings association depositors are unlikely to conform as closely to the life cycle of saving as the population at large, particularly in the age group over age 65.

C. ROLE OF SAVINGS IN RETIREMENT

1. Assets of the Elderly in Retirement

In January 1981, the Social Security Bulletin published a study by Joseph Friedman and Jane Sjogren analyzing the "Assets of the Elderly As They Retire." The study was based on a longitudinal analysis of 11,153 people age 58 to 63 in 1969 who had become 64 to 69 in 1975. The authors analyzed this group of people during that 1969–75 period to learn what types of assets were held by the elderly, how large were these assets, and how the assets changed as the people entered retirement.

Total assets include liquid assets (e.g., checking and savings accounts, stocks, bonds, and mutual funds), nonliquid assets (real estate and equity in businesses and professional practices) and home equity (the value of the home less any mortgage debt).

Nearly 90 percent of the group owned assets of some kind. The median value of the assets, however, was not large. Over the 1969–75 period, the assets values (in 1969 constant dollars) ranged from

$19,000 to $21,000 for married men, $10,200 to $13,000 for nonmarried men, and from $8,800 to $9,600 for nonmarried women.

The distribution of the assets among the elderly was skewed. Although a large proportion of them had little or no assets, 4 to 5 percent had assets of more than $100,000, and another 8 to 9 percent had assets between $50,000 to $100,000. As one might expect, people with relatively higher incomes had larger amounts of assets than those with lower incomes.

Liquid assets were the most common type of asset held by older Americans. Nearly 80 percent of the sample population had some liquid assets. The amounts were small, however, with the median value being $3,000 to $3,600.

Nonliquid assets were held by less than one-third of the people. But nearly two-thirds of the elderly owned a home, and more than 80 percent of the married men owned a home.

What is particularly interesting about this study is that there was no marked pattern of asset reduction over the 1969–75 period, which indicates that the group—as a whole—was not liquidating its wealth to meet retirement income needs. Some asset liquidation did occur, nevertheless, among people in the lower income group who also had substantial assets to draw upon.

This study portrayed a rather bleak picture of the economic well-being of older Americans. Generally, it found that as people reach retirement age and their incomes decrease, their property wealth is limited, and they can seldom be expected to rely on assets to maintain their previous standard of living. Although this is generally true, a small fraction of the elderly with incomes in the highest one-fourth of the group did have substantial asset wealth.

Data from a more recent survey show the distribution of wealth (assets) across different age groups—although they provide no indication as to the distribution of asset values *within* different age bands. This survey was done in 1979 in conjunction with the design of the Department of Health and Human Services (HHS) survey of income and program participation (SIPP). For the 1979 survey, a national probability sample of about 9,500 households was canvassed six times, at roughly quarterly intervals, on a wide range of income, program participation, and related social and economic matters. Detailed data on net worth were obtained at the fifth interview (or so-called "wave"), referring to holdings as of December 31, 1979. (About 7,000 households responded at that stage.) More limited net worth data were obtained in the second interview (wave). The results from these interviews are collected in table 7, taken from a paper by Robert B. Pearl and Matilda Frankel.[5]

The data are presented in terms of the age of the "reference person," who is generally the individual in whose name the living quarters are owned or rented.

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[5] Composition of the Personal Wealth of American Households at the Start of the Eighties. Paper presented at the American Statistical Association Annual Meeting in Cincinnati, Ohio, August 1982. The following analysis of this data is taken from the same paper.

TABLE 7.—WEALTH DISTRIBUTION OF HOUSEHOLDS, BY AGE OF REFERENCE PERSON: YEAR END 1979

Age of reference person	Net worth	Total wealth	Assets												Total unsecured debt
					Financial assets							Equity in:			
			Equity in own home	Equity in vehicles	Total	Cash, checking accounts	Savings account	Savings bonds	CD's, bonds, loans	Stocks, mutual funds	Equity in rental property	Own business	Own farm	Household goods and other assets	
Percent distribution by category of assets:															
Under 35	100.0	111.8	42.0	7.1	16.9	2.1	5.6	0.4	3.0	6.1	9.2	11.5	1.6	23.1	−11.8
35 to 44	100.0	104.8	36.2	2.9	19.5	1.1	3.7	0.3	6.0	8.6	12.7	17.6	5.3	10.4	−4.7
45 to 54	100.0	103.6	36.4	2.8	23.2	1.3	4.4	0.6	9.2	8.2	18.6	8.6	5.2	8.3	−3.5
55 to 64	100.0	101.5	29.1	2.3	34.0	1.5	5.7	0.6	12.6	14.2	15.4	9.0	4.2	6.9	−1.5
65 to 69	100.0	101.0	31.8	2.7	33.0	1.8	8.0	0.6	12.4	10.8	16.4	3.7	5.7	7.2	−1.0
70 or over	100.0	100.5	31.6	2.5	36.2	1.8	8.4	0.5	12.3	13.7	18.4	0.3	5.1	5.8	−0.4
Percent of households owning a given asset:															
Under 35			42.9	60.9	92.5	86.4	72.2	20.6	5.3	11.8	6.1	9.0	1.4		80.5
35 to 44			65.7	73.0	93.4	89.6	73.6	23.5	11.0	25.0	15.2	15.5	2.6		82.6
45 to 54			70.9	77.9	92.0	89.4	76.7	25.4	17.9	26.2	21.0	11.8	4.2		73.8
55 to 64			74.0	78.0	94.6	90.2	76.3	24.2	24.0	22.4	18.6	11.8	2.6		61.4
65 to 69			68.5	66.5	93.6	90.4	69.1	19.9	28.8	23.1	14.0	4.9	2.4		44.5
70 or over			64.1	60.1	96.1	90.9	74.7	13.5	27.1	18.1	16.1	3.4	1.9		34.4
Average size of holding per household owning a given asset (dollars):															
Under 35	20,056	22,428	19,650	2,345	3,752	485	1,579	466	11,599	10,416	32,688	30,590	22,476	4,819	2,945
35 to 44	65,386	68,501	36,001	2,592	13,865	827	3,333	860	35,760	22,495	54,518	80,592	132,792	7,251	3,769
45 to 54	74,889	77,562	38,420	2,671	19,348	1,113	4,355	1,837	38,593	23,441	66,247	75,688	92,487	6,649	3,624
55 to 64	108,574	110,230	43,621	3,149	39,739	1,797	8,197	3,322	57,141	68,469	89,989	102,889	190,012	7,901	2,698
65 to 69	88,300	89,227	40,975	3,576	31,709	1,711	10,323	3,606	38,018	41,061	103,494	85,247	206,958	6,779	2,082
70 or over	73,450	73,795	36,282	3,057	28,144	1,460	8,354	3,846	33,381	55,271	84,280	15,725	196,650	4,323	1,002

Source: 1979 ISDP Survey: Second and fifth waves.

Aging interrelates with wealth in various and sometimes contradictory ways. Income generally rises up until the middle years, then levels off and declines as retirement approaches. To the extent that income and wealth accumulation are related, the latter would be expected to follow a similar path. Life cycle considerations stimulate homeownership and acquisition of durables while families are forming and growing, but often result in movement into smaller, rental quarters when the children leave. Probably the major impact of age as it concerns asset formation is the cumulative opportunity for acquisition of wealth as life extends into the middle and upper years.

The net effect of these factors is exhibited in table 7 in the proportions possessing various assets and in the average holdings of the various age groups. For most individual categories, asset ownership rates rise rapidly after the early years, reaching a peak in middle or upper middle age, before dipping downward. The average size of holdings, however, clearly continues to rise until upper middle age before some element of dissaving sets in.

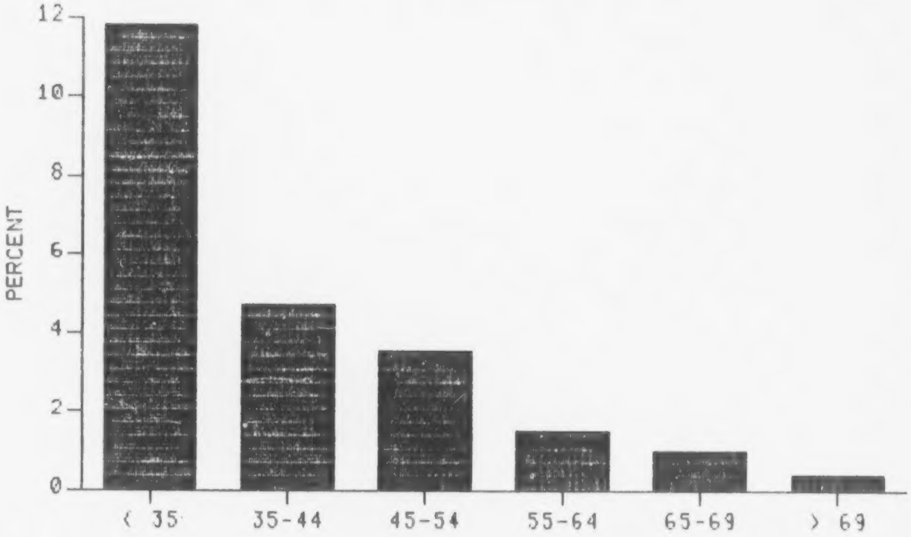
The distribution of holdings within age categories provides a somewhat different view of these tendencies. Among young households under 35 years of age, home equity is a rather dominant element in net worth, even though homeownership rates are well below average at that stage of life. The explanation for this apparent contradiction is that young families, in general, have little in the way of accumulated resources and those in a little stronger financial position have probably invested almost everything they have in their first homes, which are often condominium dwellings. The sizable percentage of the net worth of the young represented by automobile equity and household possessions reflects a similar circumstance. In fact, fully three-quarters of the wealth of young households is concentrated in these three tangible components. The relatively high ratio of debts to assets for the young can logically be attributed to their need for acquisition of possessions at this stage of life (chart 3).

With the gradual buildup of financial assets in the middle years, home equity drifts downward to a more typical level of about one-third of overall wealth. It is in these active years that equities in business and farm enterprises attain their greatest relative importance within the portfolio. Equity in rental property becomes more significant and remains so as age increases.

Home equity represents almost the same proportion of asset holdings among older households as among those in the middle years, in spite of the reduction in homeownership at those older ages. One reason is that older people remaining in their homes generally own them outright or have little mortgage indebtedness to offset their equity. The increase in condominium ownership, sometimes involuntary, has probably affected the elderly a good deal, as well as the young.

CHART 3

UNSECURED DEBT AS A PERCENT OF TOTAL WEALTH
BY AGE GROUP

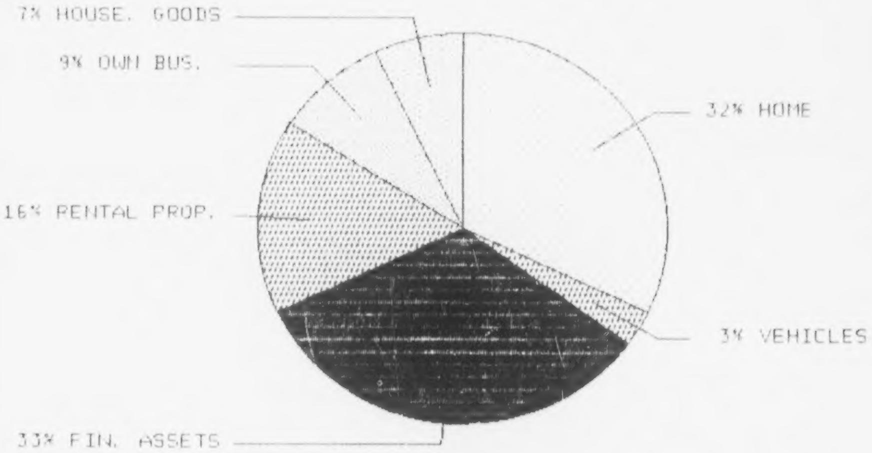


SOURCE: PEARL, ROBERT B. AND MATILDA FRANKEL. COMPOSITION OF THE PERSONAL WEALTH OF HOUSEHOLDS AT THE START OF THE EIGHTIES. PAPER PRESENTED AT THE AMERICAN STATISTICAL ASSOCIATION, CINCINNATI, OHIO, AUGUST 1982.

The most striking difference for older households is the very large proportion (a third or more) of their net worth which is invested in financial assets (chart 4). Moreover, a much larger proportion of the resources of older people is concentrated in costly and less liquid categories (certificates of deposit, corporate stocks and bonds, etc.) than is the case for younger households. The low ratio of debts to assets for the elderly mirrors the diminution of their need to acquire possessions. In addition, medicare and medicaid could be playing an important role in keeping the elderly out of debt in spite of rising medical expenses.

CHART 4

WEALTH DISTRIBUTION OF HOUSEHOLDS
65-69 YEARS OF AGE



SOURCE: PEARL, ROBERT B. AND MATILDA FRANKEL. COMPOSITION OF THE PERSONAL WEALTH OF HOUSEHOLDS AT THE START OF THE EIGHTIES. PAPER PRESENTED AT THE AMERICAN STATISTICAL ASSOCIATION, CINCINNATI, OHIO, AUGUST 1982.

2 INCOME OF THE ELDERLY FROM ASSETS

Two other Social Security Administration studies published in 1983[6][7] shed light on a different set of questions: How many elderly people derive income from assets, and how large is that income? Based on the Census Bureau's Current Population Survey, two-thirds of the aged population in 1980 received asset income, including interest from savings accounts and bonds, dividends from stock, rental income, royalties, and income from estates and trusts.

The proportions of elderly units reporting receipt of asset income were several percentage points higher in 1980 than in 1978. However, income from assets has been the least well reported source of income in the Census Bureau's Current Population Survey. Total amounts of dividend income, for example, derived from the Current Population Survey, equal only 38 percent of total amounts of dividend income estimated from other sources. The increase in the elderly's reported receipt of income from assets in 1980 may be a reflection of better reporting of such income in response to a revised questionnaire. On the other hand, the proportion of aged reporting receipt of income from assets has increased from 49 percent in 1971, to 56 percent in 1976, 62 percent in 1978, and 66 percent in 1980, which suggests a trend toward increasing receipt of income from assets among the aged during the 1970's (chart 5).

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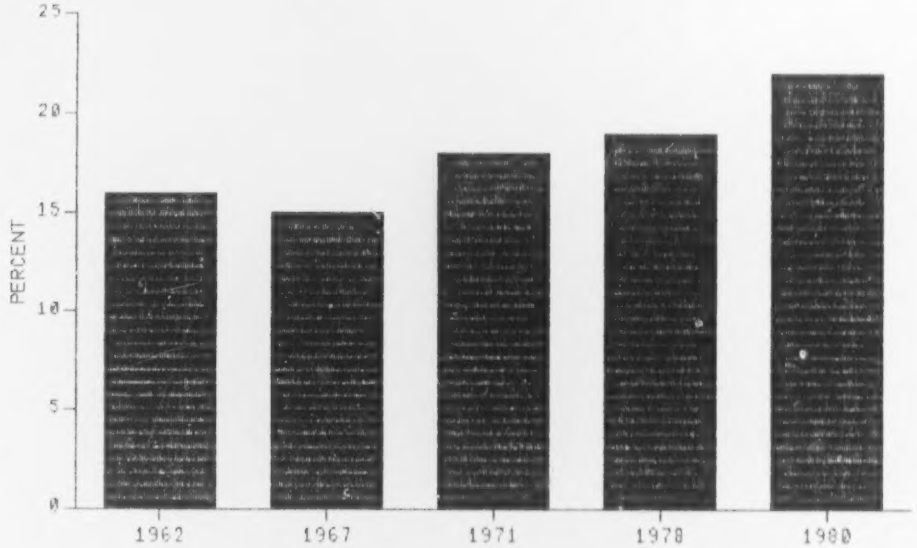
[6] Grad, Susan. Income of the Population 55 and Over, 1980. Social Security Administration. Office of Research and Statistics, 1983. Forthcoming.

[7] Upp, Melinda. Relative Importance of Various Income Sources of the Aged, 1980. Social Security Bulletin, January 1983, pp. 3-10.

CHART 5

ASSET INCOME:
PERCENT SHARE OF AGGREGATE INCOME OF THE ELDERLY



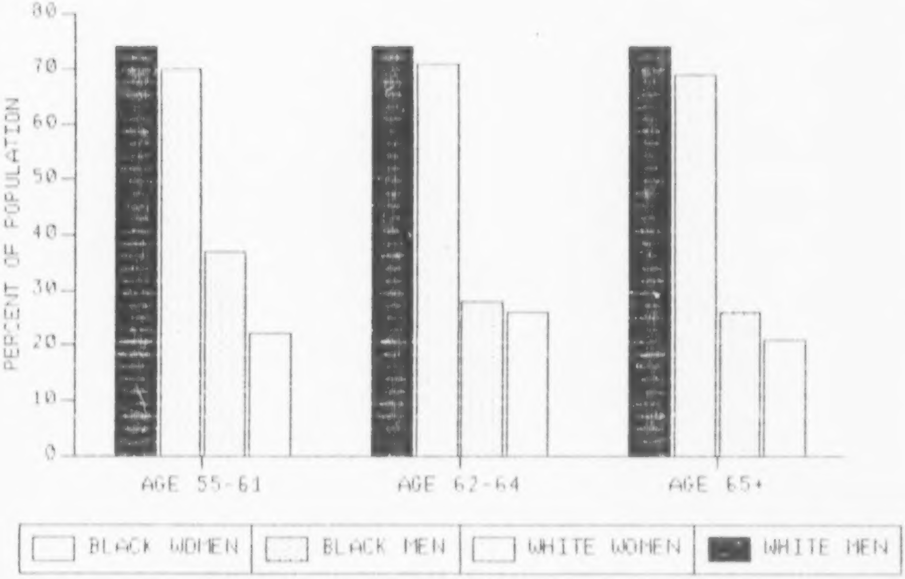
SOURCE: SOCIAL SECURITY BULLETIN, JANUARY 1983/Vol. 46, No. 1

The actual percentages of older men and women who received asset income in 1980 are shown in chart 6.

Three points need to be stressed from this data. First, the percentage of older people with asset income in 1980 remained relatively consistent across age groups, i.e., those between 55 and 61 had relatively the same percentage of asset income as those age 65 and over.

CHART 6

PERCENT OF AGED WITH ASSET INCOME BY AGE GROUP-1980



SOURCE: U.S. SOCIAL SECURITY ADMINISTRATION

Second, the distribution of asset income is very uneven. Older men have a substantially larger likelihood of receiving asset income than women, and substantially fewer black Americans report asset income than whites.

Third, 31 to 34 percent of the aged reported having no asset income whatsoever in 1980. And of those who did report asset income in that year, the annual median income reported was relatively low, i.e., half of the over-65 group with asset income had annual income above $1,140 a year, and half had asset income less than $1,140. Thirty-five percent of the units age 65 and over with asset income received less than $500 a year, while 20 percent had $5,000 or more in annual income from assets.

3. Relative Importance of Asset Income for the Elderly

Historically, income from savings and other assets has furnished a relatively small but growing portion of the income of the elderly. In 1980, for example, 22 percent of the total money income of the elderly came from asset income—compared to 15 to 16 percent in the 1960's.

Assets are an increasingly common source of income for the elderly, and, as we have seen, the share of total income provided by assets has also increased. At all income levels, income from assets is far more important than income from private pensions; in 1980, assets provided three times as much of the total retirement income of aged units as did either private- or government-employee pensions.

But asset income is a much more important source of income for higher income individuals than for those with lower income, as the following table illustrates. Whereas only 38 percent of those aged units with income less than $50,000 had some asset income, nearly all (97 percent) of those with incomes of $20,000 or more had some asset income. And while roughly one-fourth (27 percent) of the $20,000-and-over aged group relied on assets for more than half of their total income, only 2 percent of aged units with incomes of less than $5,000 derived half or more of their income from assets. Indeed, assets provided only 4 percent of the total money income of the low-income group, compared to 34 percent of total money income among the higher income aged units.[8]

TABLE 8.—ASSET INCOME DISTRIBUTION AMONG AGED UNITS, 1980

Item	All units	Level of total money income			
		Less than $5,000	$5,000-$9,999	$10,000-$19,999	$20,000 or more
Percent of units with asset income	66	38	72	89	97
Percent of all units relying on assets for 50 percent or more of total income	9	2	6	14	27
Percent of units with assets and relying on assets for 50 percent or more of total income	13	6	8	16	28
Share of aggregate income provided by assets	22	4	14	21	34

Source: Social Security Bulletin, January 1983.

In view of these findings about the overall level of assets and their uneven distribution among the elderly, virtually all of the expert groups and national commissions that recently studied retirement income have recommended the need for public policy to strengthen individual savings for retirement.

D. RECOMMENDATIONS OF ADVISORY GROUPS

1. PRESIDENT'S COMMISSION ON PENSION POLICY

In its final report released in February 1981 the President's Commission on Pension Policy recommended the following steps to strengthen individual savings:

> Favorable tax treatment should be extended to employee contributions to pension plans. A refundable tax credit for low- and moderate-income people to encourage voluntary individual retirement savings and employee contributions

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[8] These figures, and the table, are drawn from: Upp, Melinda. Relative Importance of Various Income Sources of the Aged, p. 7.

to plans are recommended. At the time of tax filing, the employee would choose the higher of a tax deduction or a tax credit.

2. National Commission on Social Security

In its final report issued in March 1981, the National Commission on Social Security agreed that it should be the policy of the Federal Government to encourage individual saving for retirement.

> Again, the Commission regards private savings as an important part of the total income security of American families; it recommends a strengthening of the present individual retirement account (IRA) opportunities. Present law permits a maximum tax deductible contribution of $1,500 per year to a qualifying individual retirement account. The Commission believes this amount should be increased as a way to encourage savings.

3. Committee for Economic Development

In September 1981, the Committee for Economic Development—an independent, nonprofit, research, and educational organization of 200 business executives and educators—issued a report called "Reforming Retirement Policies." In it, the CED recommended the following strategy for increasing personal savings:

> It is in society's interest to make increased individual savings for retirement a financially attractive and accessible goal. But changes in the tax law are necessary before a substantial number of current workers will be able and willing to increase their saving to any significant degree. Tax proposals to encourage saving generally deserve favorable consideration because they will reduce the current consumption bias in the Tax Code and contribute to a higher level of investment. Tax policies that directly encourage saving for retirement deserve the most emphasis of all. Accordingly, we give top priority in this area to the recommendation that persons covered by qualified pension plans be permitted to make tax-deferred contributions to either an IRA, a Keogh plan, or to a qualified pension plan.

E. 1982 CHANGES IN TAX LAW

The Economic Recovery Tax Act (ERTA) of 1981 (Public Law 97-34) contained a number of important provisions designed to stimulate personal savings. In August 1981, the Special Committee on Aging published an information paper called "1981 Federal Income Tax Legislation: How It Affects Older Americans and Those Planning for Retirement." [9] The overall, 3-year, across-the-board reduction in tax rates will lower the marginal tax on each additional dollar of income earned and will therefore make saving more attractive because the after-tax return on each dollar saved is increased.

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[9] The Special Committee on Aging published, in addition, Protecting Older Americans Against Overpayment of Federal Income Taxes, December 1982.

In addition to the reductions in tax rates, the 1981 tax law contained specific incentives to increase savings, such as the provision allowing the so-called "all savers certificate" exempt from Federal (and many States) income taxes and the provisions providing for special reductions in the tax on interest income (effective 1985) and on stock dividends of public utilities (effective 1982–85). But the most important savings provisions of the ERTA, from the standpoint of individual retirement income, were the provisions expanding tax-sheltered contributions to IRA and Keogh accounts which became effective in 1982, and the intended expansion of employee stock ownership plans.

1. INDIVIDUAL RETIREMENT ARRANGEMENTS (IRA'S)

The Employee Retirement Income Security Act of 1974 (ERISA) contained provisions (section 2002) enabling individuals to set up individual retirement arrangements (IRA's) to save for retirement. Very simply, if an IRA is created, money paid into the plan is deductible for Federal income tax purposes, and the earnings on the money paid into the plan are tax deferred. The funds set aside and the earnings therefrom are not taxed until they are distributed to the individual. Under current rules, distributions cannot be made before age 59½ or delayed beyond age 70½ without incurring penalties. Thus, distributions normally begin after retirement, when the individual is usually in a substantially lower tax bracket.

The idea of providing tax incentives to encourage individuals to save for their own retirement can be traced to a message to the Congress from President Nixon in 1971. It was pointed out that many individuals were not covered by private pension plans, on the one hand, nor furnished tax incentives to save for their own retirement as were then available for the self-employed. To fill that gap, the President recommended that employees who wish to save independently for their retirement or to supplement employer-financed pensions should be allowed to deduct for tax purposes amounts set aside for retirement.

The President proposed in 1971 that contributions to retirement savings programs by individuals be tax deductible up to the level of $1,500 per year or 20 percent of income, whichever was less. This proposed deduction would have been available to those already covered by employer-financed plans, but in this case, the upper limit of $1,500 would have been reduced to reflect pension plan contributions made by the employer.

Congress appreciated the complexities involved in determining the exact amount of money that an employer contributed on behalf of each individual in a defined benefit pension plan. It was also concerned with the revenue losses that such a program would cause and the newness of the program itself. Therefore, in passing the ERISA legislation in 1974, Congress limited the tax incentives to individuals not covered by an employer-sponsored pension program since they generally would be more in need of supplemental retirement income. These individuals were permitted to contribute to an individual retirement arrangement (IRA), the lesser of 15 percent of compensation or $1,500. The assets of an IRA could be invested in a trusteed or custodial account with a bank, savings and loan, or credit union, in mutual funds, or in an annuity contract issued by an insurance company. This deduction for retirement savings was effective for taxable years beginning after December 31, 1974. Basically, the IRA provisions, as outlined above, remained the same until the recent changes in the Economic Recovery Tax Act became effective January 1, 1982.

How many people took advantage of IRA's? Unfortunately, current data are not available on this subject, although we do have data that are several years old showing the estimated utilization of IRA's in 1977, and there are more recent IRS data showing the number of tax returns each year which claimed deductions for an IRA.

In 1977, of approximately 55 million taxpayers eligible to establish an IRA, only 2.5 million IRA's were actually established, i.e., only 4.6 percent of those eligible actually utilized the arrangement. The detailed utilization rates according to income class are shown in the following table.

TABLE 9.—INDIVIDUAL RETIREMENT ACCOUNTS, 1977: ESTIMATE OF UTILIZATION RATE BY INCOME CLASS

	Number of returns with salaries and wages (in millions) [1]	Estimated number of taxpayers with salaries and wages (in millions) [2]	Estimated number of taxpayers eligible to use IRA's (in millions) [3]	Estimated number of IRA's (percent) [4]	Utilization rates (percent)
Adjusted gross income class:					
0 to $5,000	20.1	20.7	17.6	0.04	0.2
$5,000 to $10,000	16.5	19.0	13.3	.18	1.4
$10,000 to $15,000	13.0	17.5	10.5	.35	3.3
$15,000 to $20,000	10.7	16.3	7.4	.40	5.4
$20,000 to $50,000	15.8	24.9	6.2	1.35	21.8
$50,000 and over	1.1	1.4	.4	.21	52.5
Total	77.2	99.8	55.4	2.53	4.6

[1] Unpublished data from 1977 tax returns.

[2] Includes 2 spouses when both have salaries and wages.

[3] Excludes persons covered by public or private retirement systems.

[4] Allows for 2 individual retirement accounts on some returns. Based on number of forms 5239 filed. Some of these accounts received no deductible contributions during 1977.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Mar. 27, 1979

A second table shows the number of Federal income tax returns claiming deductions for contributions to an individual retirement arrangement:

TABLE 10.—IRA TAX DEDUCTIONS

Year	Federal tax returns claiming IRA deductions (in millions)	Amount of IRA contributions (in billions)
1975	1.2	$1.6
1976	1.6	2.0
1977	2.0	2.5
1978	2.4	3.0
1979	2.5	3.2
1980	2.6	3.4

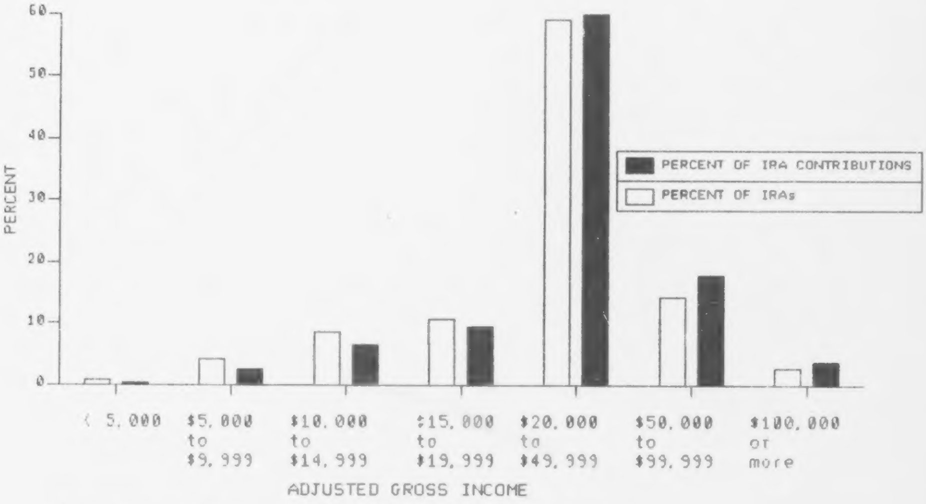
Source: U.S. Internal Revenue Service, "Statistics of Income," for the tax years in question.

It is worth emphasizing that table 10 does not tell us the total number of IRA's outstanding, because it does not show IRA's to which contributions were not made in that tax year. Still, the trend since 1975 points to considerable expansion. The number of returns showing IRA deductions doubled, as did the total contributions to those plans. This expansion is all the more significant because the tax deductible amounts to IRA's were not raised during that period, but held at the 1974 level of $1,500 or the lesser of 15 percent of compensation.

Despite this expansion in the number of returns showing IRA deductions and in the amounts contributed to IRA's, the establishment of tax-sheltered IRA's has been particularly strong among those with adjusted income of $20,000 to $50,000, as the following chart shows for 1980.

CHART 7

DISTRIBUTION OF IRAs AND CONTRIBUTIONS TO IRAs
BY AMOUNT OF ADJUSTED GROSS INCOME



Based on 1980 tax returns, Internal Revenue System

(A) IRA'S AND THE ECONOMIC RECOVERY TAX ACT OF 1981 (ERTA)

In 1981, Congress heeded the recommendations of the various advisory groups about the need to strengthen personal savings for retirement income and made major changes in the IRA provisions, both expanding the amounts that can be contributed to IRA's and expanding the eligibility for IRA's far beyond the eligibility rules laid down in 1974. (To help answer consumer questions, the Special Committee on Aging published "A Guide to Individual Retirement Accounts," in December 1981.)

Specifically, the Senate Finance Committee gave the following reasons in support of the 1981 changes: [10]

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[10] U.S. Congress. Senate. Committee on Finance. Report No. 97-144.

> The committee is concerned that the resources available to individuals who retire are often not adequate to avoid a substantial decrease from preretirement living standards. The committee believes that retirement savings by individuals can make an important contribution toward maintaining preretirement living standards and that the present level of individual savings is too often inadequate for this purpose. The committee understands that personal savings of individuals have recently declined in relation to personal disposable income (i.e., personal income after personal tax payments). During the years 1973 through 1975, the personal savings rate was no more than 8.6 percent. It declined to 5.2 percent in 1978 and 1979, and rose only slightly in 1980 to 5.6 percent. (These savings estimates include employer payments to private pension funds.)
>
> The committee has found that the present rules providing tax-favored treatment for individual retirement savings have become too restrictive in view of recent rates of inflation and because they do not sufficiently promote individual savings by employees who participate in employer-sponsored plans.
>
> The committee bill is designed to promote greater retirement security by increasing the amount which individuals can set aside for retirement in an IRA, and by extending IRA eligibility to individuals who participate in employer-sponsored plans. The bill also extends additional tax-favored treatment to voluntary employee contributions to employer-sponsored plans so that plan participants can take advantage of systematic payroll deductions to accumulate tax-favored retirement savings.

Before the new tax law, deductions to an individual retirement account (IRA) were limited to the lesser of 15 percent of compensation or $1,500. Under the new law, for taxable years after December 31, 1981, the limit on contributions is the lesser of 100 percent of compensation or $2,000.

Further, the new law allows workers covered by a company pension plan to participate in IRA accounts. Such workers were excluded from IRA's in 1981. For taxable years after December 31, 1981, the $2,000 limit on contributions will apply to contributions the employee may make to an IRA or as a voluntary contribution to the company plan. Such voluntary contributions and earnings from the voluntary contributions will generally be subject to IRA-type rules. Note that mandatory employee contributions to a company plan are not tax deductible, under the new law, although various experts have testified at congressional hearings that it would be a good idea to make mandatory employee contributions also deductible. In 1981, such plans were not made deductible because: (1) The revenue loss would have been substantial, and (2) it was felt that making mandatory contributions tax deductible would not have as much as an effect in creating new savings as would the deductibility of voluntary contributions.

(B) IRA'S FOR NONEMPLOYED SPOUSES

The pre-ERTA IRA provisions allowed a worker to set up an IRA for a nonemployed spouse. The maximum combined contribution allowed under prior law was $1,750, and the contributions had to be in equal amounts for each spouse. As a result of the new tax law, the limit on contributions to a spousal IRA, after December 31, 1981, is $2,250 instead of $1,750. Also, the new law deletes the previous requirement that contributions under a spousal IRA be equally divided between the spouses. The new law has no such rules, except that no more than $2,000 can be contributed to the account of either spouse.

Prior law forbade the nonearning spouse from making contributions to a spousal IRA after a divorce. Without wage or salary income, that individual could not continue making contributions to his or her one-half share of a spousal IRA.

The new law, effective January 1, 1982, allows a divorced spouse to continue making contributions to a spousal IRA under certain conditions. The individual's former spouse must have established the spousal IRA at least 5 years before the divorce, and the former spouse must have contributed to the spousal IRA for at least 3 of the 5 years preceding the divorce. If those requirements are met, then the divorced spouse may continue to make contributions to the spousal IRA up to a maximum of the lesser of $1,125, or the divorced spouse's total compensation and alimony includable in gross income.

(C) EMPLOYER-SPONSORED IRA'S OR SIMPLIFIED EMPLOYEE PENSIONS

The Revenue Act of 1978 (Public Law 95-600) provided for an increased deduction for contributions to an employee's individual retirement plan by the employer under an employer-sponsored IRA called a simplified employee pension.

If an individual retirement account or individual retirement annuity (IRA) qualifies as a simplified employee pension (SEP), both the employee and the employer may make contributions to the employee's IRA. Before the Economic Recovery Tax Act of 1981, employer contributions for an employee under a SEP were includable in the gross income of the employee and the employee was allowed a deduction for the employer contribution, limited to the lesser of 15 percent of compensation or $7,500. With respect to employee contributions, the limit was $1,500 (or 15 percent of compensation, if less) reduced by the amount of deductible employer contributions for that year.

The ERTA raised the limit on employee contributions to $2,000, and raised the ceiling on employer contributions from 15 percent or $7,500, to 15 percent of compensation or $15,000, whichever is lower, effective January 1, 1982.

(D) PUBLIC RESPONSE TO 1982 CHANGES IN IRA'S

A July 7, 1982 study released by the Life Insurance Marketing and Research Association, Inc., of a national sample of 5,000 households showed that 33 percent of all households eligible to open individual retirement accounts will do so for the 1982 tax year and 17 percent did so in the first quarter of 1982.[11] The national consumer study, based on IRA activity for the first quarter of 1982, reveals that 89 percent of those eligible to open IRA's are aware of their eligibility. It reveals also that IRA purchase activity is greatest among the 45 to 64 age group, particularly when annual incomes are $30,000 and more. IRA purchase activity is highest among household heads 55 years or older and among this group, the higher the income, the more likely the individual reported a purchase or an intent to purchase. For individuals 55 years and older with incomes between $15,000 to $24,999, 24 percent have already made an IRA purchase and another 12 percent intend to do so. In this same age category, among those with $50,000 and more of income, the purchase rate was at 48 percent with another 21 percent expressing an intention to purchase.

The study also found that three-quarters of those opening IRA accounts plan to make the maximum contribution for the 1982 tax year. Among those who had opened accounts by April 1982, 41 percent contributed less than $2,000.

Approximately 6 out of 10 households opening IRA's for the 1982 tax year are funding all or part of their plans with money from their regular income earnings. Accounts being opened for maximum amounts, however, are the most likely ones to be funded with money rolled over from an existing financial product.

Despite the high level of public awareness of IRA eligibility, the study found that a good deal of confusion existed among consumers. About one-third of eligible households were undecided about opening accounts. Even among those planning to open accounts, 12 percent were undecided as to the institution in which the plan would be placed, and 25 percent were undecided as to what type of funding vehicle they would select.

IRA assets have increased by over 80 percent since the end of 1981, according to data compiled by the Employee Benefit Research Institute (EBRI), a nonpartisan, Washington, D.C. based public policy research organization. The surge in IRA/Keogh contributions has pushed deposits up from $25.7 billion at the end of 1981 to an estimated $46.5 billion in the first 9 months of 1982. The record $20.8 billion increase in accumulated contributions is almost four times the amount of contributions made in 1981.

Dallas L. Salisbury, executive director of EBRI, noted:

> The 1981 tax incentives provided by Congress for IRA's encourages more responsibility for retirement planning by individuals. This year's phenomenal IRA growth indicates that workers are beginning to respond to these incentives.

TABLE 11.—ASSETS IN INDIVIDUAL RETIREMENT ACCOUNTS, 1981–82

[In billions]

Financial institution	Yearend 1981	Apr. 30, 1982	June 30, 1982	Sept. 30, 1982
Commercial banks [1]	$7.0	$13.0	$14.9	$16.2
Mutual savings banks [1]	3.4	4.5	5.8	5.9

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[11] Life Insurance Marketing Research Association (LIMRA). The Public's Response to IRA: A Consumer Study. Research report 1982-3, July 1982.

TABLE 11.—ASSETS IN INDIVIDUAL RETIREMENT ACCOUNTS, 1981–82—Continued

[In billions]

Financial institution	Yearend 1981	Apr. 30, 1982	June 30, 1982	Sept. 30, 1982
Savings and loans [1]	[2] 9.2	16.3	([3])	([3])
Mutual funds	2.6	4.0	4.3	([3])
Credit unions	0.2	0.5	([3])	([3])
Life insurance companies	3.3	([3])	([3])	([3])
Total assets	25.7	[4] 41.6	[4] 45.1	[4] 46.5

[1] IRA and Keogh deposits.

[2] Estimated.

[3] Not available.

[4] Baseline estimates using latest data available for each institution. These estimates provide a minimum total asset amount, which may underreport the actual amount of total assets outstanding.

Sources: EBRI tabulations of data provided by Federal Reserve Board, National Association of Mutual Savings Banks, National Credit Union Administration, Federal Home Loan Bank Board, U.S. League of Savings Associations, Investment Company Institute, and American Council of Life Insurance.

Total IRA/Keogh deposits in commercial banks more than doubled during the 9-month period—$7 billion at yearend 1981 to $16.2 billion at the end of September 1982. Deposits in mutual savings banks grew almost 75 percent during the first 9 months of 1982, reaching $5.9 billion by the end of September.

Latest available data for savings and loan associations indicates that IRA/Keogh assets grew over 75 percent during the first 4 months of 1982, reaching approximately $16.3 billion at the end of April. Mutual funds showed a 65-percent increase—$1.7 billion in IRA assets—during the first half of 1982.

2. KEOGH ACCOUNTS

As tax-qualified pension plans spread, many small business people found that their employees could benefit by being included in tax-qualified pension plans, but the employers could not. Nor could self-employed individuals without employees. Further, where two people operated similar businesses and realized similar profits, but if one was a sole proprietor and the other was incorporated, the corporate operator could benefit from a pension plan even though he was the only employee of the corporation, but the sole proprietor could not.

Efforts were made to remedy this situation, and various bills were introduced in Congress. The number H.R. 10 was assigned to an early bill and was retained in succeeding bills until enactment of the Self-Employed Individuals Tax Retirement Act of 1962. Today these retirement plans are commonly known as H.R. 10 plans or Keogh plans (named for Representative Eugene J. Keogh of New York who sponsored the legislation).

The purpose of the Self-Employed Individuals Tax Retirement Act of 1962 was to enable self-employed individuals to participate in a tax-qualified retirement plan if they chose to do so, in much the same way as employees could. Various restrictions and limitations, however, were included in this 1962 legislation.

Contributions on behalf of owner-employees were permitted to the lesser of 10 percent of earned income or $2,500—but the allowable tax deduction for any self-employed individual (whether an owner-employee or not) was limited to one-half of the contribution, up to a maximum of $1,250 in a taxable year. The provision reducing the allowable deduction to one-half of the contribution was repealed by Public Law 89-909, effective for taxable years beginning after December 31, 1967. ERISA made additional liberalizations in 1974.

Prior to ERISA's passage in 1974, self-employed people who established a Keogh plan were limited to a contribution of $2,500 per year, while there was no limit imposed on corporate plans. It was found that this led to otherwise unnecessary incorporation by self-employed persons solely for the purpose of obtaining the tax benefits for retirement savings. To achieve greater equity vis-a-vis corporate plans, Congress, in passing ERISA, increased the annual limit for deductible contributions to Keogh plans to 15 percent of earned income or $7,500, whichever was lower, and it also provided a new minimum deduction based on the lesser of 100 percent of earned income or $750. An overall limit of $100,000, however, was set on earned income that could be taken into account under a plan that includes self-employed individuals.

The following table shows the number of Federal income tax returns from 1977 through 1980, which reported payments to a self-employed retirement Keogh plan, and the amount contributed.

TABLE 12.—KEOGH TAX DEDUCTIONS

Year	Number of tax returns	Amount of contributions (in billions)
1977	577,000	$1.8
1978	627,000	2.0
1979	590,000	2.0
1980	569,000	2.0

Source: U.S. Internal Revenue Service, "Statistics of Income" for the tax years in question.

In general, under a tax-qualified plan, loans to participants are permitted if certain requirements are met. However, H.R. 10 or Keogh plans were not permitted to lend to an owner-employee. If an owner-employee participating in an H.R. 10 plan borrowed from the plan, or used an interest in the plan as security for a loan, the amount of the loan or security interest was treated as a plan distribution, and the usual tax rules for distributions applied.

(A) 1981 TAX LAW CHANGES IN KEOGH ACCOUNTS

In 1981, Congress reviewed the Keogh provisions at the same time that it expanded eligibility for IRA's and decided there were reasons for a change, as stated in the Senate Finance Committee Report No. 97-144:

> The maximum deductible contribution for H.R. 10 plans has not been revised since 1974. The committee believes this limit should be increased as an adjustment for inflation and to make these plans more attractive.
>
> The committee also believes that current provisions permitting partners who are not owner-employees to borrow against their interest in an H.R. 10 plan diminish retirement savings. Accordingly, to promote long-term savings for retirement, the committee believes the current treat-

ment of loans and pledges should be applied to all partners.

The 1981 law retained the present limit of 15 percent of compensation as under prior law, but effective with taxable years after December 31, 1981, it increased the maximum deduction for employer contributions to a defined contribution Keogh plan, to a defined contribution plan maintained by a subchapter S corporation, or to a simplified employee pension (SEP). The maximum deduction was increased from $7,500 to $15,000.

To provide a similar increase in the level of benefits permitted under a defined benefit Keogh or subchapter S corporation plan, the compensation taken into account in determining the permitted annual benefit accruals was increased from $50,000 to $100,000.

(B) 1982 TAX LAW CHANGES IN KEOGH ACCOUNTS

As part of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), Congress made significant changes in the tax provisions affecting employee benefit plans. TEFRA establishes parity between corporate and noncorporate plans. To this end, most of the special rules applicable to Keogh plans have been removed for tax years beginning after 1983.

Maximum limits have been increased effective in 1984 in line with the new $90,000/$30,000 limits for corporate plans. This represents at least a twofold increase in the benefits and contributions for Keogh plans. New loan rules apply to Keogh as well as to non-Keogh plans. Keogh plans will be subject to the same top-heavy rules as other plans. A top-heavy plan is defined as a plan under which more than 60 percent of the accrued benefits (or contributions) are provided for key employees. A key employee is defined as an officer, a 5-percent owner, a 1-percent owner with compensation in excess of $150,000 or the employees owning the 10 largest interests in the employer.

Special requirements for top-heavy plans include accelerated vesting schedules and a minimum benefit. Full vesting would be required after 3 years service, or, alternatively, graded vesting beginning with 20 percent after 2 years service increasing by 20 percent each year so that 100 percent vesting is attained at the end of 6 years of service. The minimum benefit required of a top-heavy plan would be 2 percent of pay multiplied by the employee's years of service (not to exceed 20 percent) in a defined benefit plan. A contribution of 3 percent of pay would be required in a defined contribution plan, or if less, the highest contribution rate for any key employee.

The effect of removing the special Keogh restrictions is:

Benefits no longer have to be immediately vested.

Social security integration rules have been eased.

Assets do not have to be held by a bank or financial institution.

The limitations on benefits provided to owner-employees are removed.

Past service benefits can be provided under a defined benefit Keogh plan as in corporate plans.

Keogh plans can limit employee coverage under the same rules used by corporate plans.

Owner-employees do not have to give their consent to participate.

The 6-percent excise tax on excess contributions no longer applies.

Voluntary contributions up to 10 percent of compensation will be allowed even where only owner-employees participate.

There no longer is a 5-year restriction on participating again in the plan for an employee who receives a premature distribution.

In addition, the first $5,000 of a lump-sum death benefit paid under a Keogh plan for deaths occurring after December 31, 1983, will be eligible to be excluded from Federal income tax.

The Senate Finance Committee gave the following reasons for making the change:

> The committee recognizes the importance of tax incentives in creating a strong pension system. At the same time, however, the committee believes it is necessary to provide more appropriate limitations to prevent excessive accumulations of tax-sheltered funds. Moreover, by reducing limitations on corporate plans, and increasing the deduction limits for [H.R.] 10 [or Keogh] plans, the bill takes a significant step toward equalizing the treatment of plans benefiting only common law employees and plans for the self-employed.[12]

The combined effect, therefore, of treating Keogh plans and corporate plans under the same pension rules is to increase the pension incentives under Keogh or H.R. 10 plans and also to eliminate the tendency for professionals to incorporate simply in order to take advantage of the higher amounts that could be sheltered from paying taxes under prior law.

3. Employee Stock Ownership Plans

Since 1974, the U.S. Congress has by legislation created two programs designed to give employees the chance to acquire a stock ownership in their employer.[13] Under ERISA, Congress first defined the employee stock ownership plan, or "ESOP" as it is usually called. In the Tax Reduction Act of 1975, and the Tax Reform Act of 1976, Congress implemented and then expanded a different form of employee ownership plan, commonly called a "TRASOP," and properly known today as the "Tax Credit Employee Stock Ownership Plan."

ESOP and TRASOP provide stock ownership for each employee usually without requiring the employee to spend any of his or her own money. Although some ESOP's and TRASOP's permit or require employees to put money into the ESOP or TRASOP, most provide that the employer will make all necessary ESOP and TRASOP payments. Both ESOP and TRASOP are tax "qualified" employee benefit plans written in such a way that they satisfy the requirements of the Internal Revenue Code. As a "qualified plan," the ESOP or TRASOP is required to be operated for the "exclusive benefit" of participating employees (and their beneficiaries).

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[12] U.S. Congress. Senate. Committee on Finance. Tax Equity and Fiscal Responsibility Act of 1982. Report of the Committee on Finance on H.R. 4961 together with Additional Supplemental and Minority Views. Senate Report 97-494, 97th Cong., 2d Sess., July 12, 1982. Washington, U.S. Govt. Print. Off., 1982, v. I, p. 314.

[13] See U.S. Congress. Senate. Select Committee on Small Business, The Role of the Federal Government in Employee Ownership of Business. U.S. Govt. Print. Off., Dec. 18, 1980.

The employer stock is acquired and held for the benefit of employees. The stock, which is held by a tax-exempt trust under the plan, may be acquired through direct employer contributions of stock or by using moneys borrowed by the trust. Under the usual rules applicable to tax-qualified plans, an employee's benefits under an ESOP are generally not taxed until they are distributed or made available.

Most conventional ESOP plans came about as the employer contributed company stock to the trust. But a smaller number of ESOP's are leveraged, i.e., to acquire stock of an employer for the benefit of employees, an ESOP may borrow money from a bank or other lender. The stock is then bought directly from the employer or from shareholders. When the ESOP borrows the money to purchase the stock, the employer guarantees to the lender that the ESOP will repay the loan. Employees are never required to assume any obligation for the repayment of the money borrowed by the ESOP. The employer is required to make annual payments to the ESOP in an amount at least equal to the amount the ESOP must pay on the money it borrowed. These amounts are then paid by the ESOP to the lender each year. The employer is also permitted to make additional payments of cash or stock to the ESOP each year. The employer gets a tax deduction for all payments to the ESOP, up to a maximum limitation established by the Internal Revenue Code. This tax deduction is available for the required employer payments to service the loan and any additional payments, and the tax effect is to reduce the annual cost of the ESOP to the employer. Cash put into the ESOP by the employer will be used primarily to purchase employer stock. In addition, this cash may be invested temporarily in savings accounts or certain other permitted investments.

An employer which adopts a TRASOP may claim an additional tax credit against Federal income taxes. An employer is entitled to an additional percentage point of investment tax credits (i.e., 11 percent rather than 10 percent of "qualified" capital investment) if the employer contributed an amount equal to the full additional credit to a tax credit ESOP. In addition to the 1-percent credit, up to one-half percent of extra investment tax credit has been allowed where an employer contributes the extra amount to the TRASOP, if the employer's extra contribution is matched by employee contributions.

TRASOP's have been found primarily in large, capital-intensive industries, for it is these companies which have large enough investments and have few enough employees, so that the 1 or 1.5 percent of investment tax credit amounts to a significant amount per employee.

Although a precise count is not available, an estimated 6,000 ESOP and TRASOP plans are in existence today.[14] The following table, based on tabulations of IRS data by the Employee Benefit Research Institute, shows the number of *new* TRASOP and ESOP plans which qualified under the Internal Revenue Code in 1976–82, and the number of participants in such plans. In addition, the new plans and participants are shown as a percent of all new, IRS-qualified employee benefit plans (defined contribution and defined benefit plans), and their participants. These data indicate that after an initial surge once the new tax legislation was passed in 1975–79, the formation of new ESOP and TRASOP plans, though still important, has fallen off relative to past levels and relative to their share of total employee benefit plans newly qualified for IRS status.

Over the years, Congress has shown steady and increasing support for the concept of employee stock ownership plans. Employee ownership has been promoted primarily as a means to increase worker motivation and productivity by giving employees a clear stake in their companies. It also gives employees additional assets to be used for retirement or other purposes. In what may become a precedent-setting action, Congress required in 1980 that the Chrysler Corp., as a condition of Federal assistance, create a $162.5 million employee stock ownership plan, which should provide Chrysler employees with 15 to 20 percent of the total voting stock in the company.

TABLE 13.—PLAN QUALIFICATIONS AND PARTICIPATION

Year	Stock bonus plans [1]		TRASOP		Total new pension plans	
	Plans	Participation	Plans	Participation	Plans	Participation
1976:						
Number	758	275,803	85	244,488	21,486	915,170
Percent	3.5	30.1	0.4	26.7	100	100
1977:						
Number	856	1,436,358	132	1,264,515	35,416	4,954,924
Percent	2.4	29.0	0.4	25.5	100	100
1978:						
Number	850	1,255,173	196	206,237	65,684	3,880,133
Percent	1.3	32.4	0.3	5.3	100	100
1979:						
Number	574	362,263	286	173,112	56,877	2,022,657
Percent	1.0	17.9	0.5	8.6	100	100
1980:						
Number	482	1,043,653	51	18,454	69,342	3,781,565
Percent	0.7	27.6	0.1	0.5	100	100
1981:						
Number	201	328,999	108	50,656	81,537	3,487,640
Percent	0.5	9.4	0.1	1.4	100	100
1982 (January-September):						
Number	201	122,192	101	110,621	68,012	1,765,956
Percent	0.3	6.9	0.15	6.3	100	100

[1] Primarily leveraged ESOP.

Source: EBRI tabulations of IRS data.

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[14] EBRI estimates that, conservatively, 950 TRASOP plans and 4,230 ESOP plans were in existence as of September 1982, and that total employee participation in those plans was more than 6 million workers.

Given this congressional support for the ESOP concept, Congress reviewed the plans during the consideration of the Economic Recovery Tax Act of 1981, and found reasons to make changes. Specifically, the Senate Finance Committee Report 97–144 listed the following reasons for change:

> The committee believes that experience in the operation of the tax laws applicable to employee stock ownership plans indicates that several changes are appropriate. The committee is concerned that the investment-based tax credit for ESOP's has not provided a sufficient incentive for the establishment of ESOP's by labor-intensive corporations. The committee believes that a permanent payroll-based tax credit for employer contributions to a tax credit ESOP will provide a more effective incentive than the additional investment tax credit currently allowed. In addition, the rules in present law which limit the ability of a leveraged ESOP to acquire employer securities with the proceeds of a loan to the plan have proved too restrictive and have prevented the use of leveraged ESOP's as a technique of corporate finance. Certain of the provisions governing distributions to participants under a tax credit ESOP or leveraged ESOP have proved burdensome and, in some cases, have precluded an employer from establishing an employee stock ownership plan.

The Economic Recovery Tax Act of 1981 terminates, after 1982, the investment-based tax credit for ESOP, and replaces it with a payroll-based tax credit. The payroll-based credit is allowed for wages paid in calendar years 1983 through 1987. For calendar years 1983 and 1984, the credit is limited to 0.5 percent of compensation paid to employees under the plan, and to 0.75 percent of such compensation for 1985, 1986, and 1987. The provision expires January 1, 1988. Although this provision will not have any direct effect on taxes paid by individuals, the change from an investment tax credit to a payroll-based credit is intended to encourage the spread of ESOP plans among labor-intensive firms, which have derived little tax benefit in the past from the investment-based credit.

The new law increases the limit on ESOP deductions from 15 percent of aggregate employee compensation, to 25 percent of compensation where the contributions are applied by the plan to make principal payments on a loan incurred to purchase employer stock. An unlimited deduction is allowed the employer for contributions applied to pay interest on the loan. The new law also removes contributions to pay loan interest and forfeitures of fully leveraged ESOP stock from the limit on contributions to any participant's account, provided the contributions to officers, shareholders, and employees whose compensation exceeds $83,000 do not exceed specified limits.

F. PROGNOSIS ON SAVINGS FOR RETIREMENT

As far as tax policy for retirement savings goes, 1981 really marked a watershed. As we have seen, Congress capitalized upon the experience with tax-sheltered plans before and after the passage of ERISA, and took major steps to strengthen the savings of individuals for retirement, in line with recommendations by various advisory groups.

The IRA expansion of eligibility, in particular, represents a major potential for increased savings of individuals,[15] and for the economy. The financial institutions offering these plans are actively promoting the various possibilities they offer for IRA-type investments. In 1982, regulatory relaxation of interest ceilings on IRA and Keogh accounts at insured depository institutions adds to their attractiveness.

The growth of IRA assets has significant implications for the future provision of retirement income. IRA's will become an important income source for the elderly in the next century, according to a recently released EBRI study.[16] The report indicates that sustained long-term growth of IRA contributions will add substantially to retirement income security for much of the working population. For 62 percent of the worker group that is presently aged 25 to 44, IRA's will generate an estimated $2,600 to $2,700 in additional annual retirement income beginning at age 65. This group constitutes the majority of the current labor force.

Others have pointed out, however, that the IRA's will certainly not be attractive for low-income individuals, given the pattern of participation in the past, and the especially large tax value IRA's provide for upper income workers in the $20,000 to $50,000 range. This is probably correct.[17] So the debate about savings in public policy in the future will probably continue to consider whether it is appropriate to encourage savings by low-income workers through special tax measures: For example, in 1981, the President's Commission on Pension Policy recommended the use of the tax credit as opposed to a tax deduction.

Tax credits affect all taxpayers equally—dollar for dollar—rich or poor, since their value does not fluctuate depending on the taxpayer's marginal tax bracket. Tax credits are subtracted from a taxpayer's tax liability, whereas tax deductions are subtracted from gross income in determining taxable income before the tax is computed. The net result is that for each dollar of tax credit a taxpayer's tax liability is reduced $1. On the other hand, IRA deductions reduce a taxpayer's liability but only by the percentage of the deduction; the percentage is dependent on the marginal tax bracket of the taxpayer—the higher income people have a higher marginal tax bracket and thereby benefit relatively more on their taxes than lower income people.

Without special incentives for low-income people, IRA's will increase the proportion of the elderly with asset income and increase the amount of that income, but they won't contribute much to eliminating poverty among the elderly.

Further debate will occur on whether the IRA deductible limit should be raised or even indexed to grow with the Consumer Price

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[15] Salisbury, Dallas L., and Susan E. Click. IRA's: An Expanding Opportunity for Private Retirement Income Provision. Washington, Employee Benefit Research Institute, 1981.

[16] Schieber, Sylvester J. Social Security: Perspectives on Preserving the System. Washington, Employee Benefit Research Institute, 1982.

[17] See: Christian, Tax Incentives for Saving, pp. 20-54.

Index. The contribution limits were held constant in 1975-81. If the IRA limits were indexed the way contributions to corporate defined contribution plans are indexed, IRA limits would have increased by about 66 percent to $2,500 a year. Undoubtedly, to the extent the new program is successful in generating new retirement savings, the higher participation will generate greater pressure on Congress to revise the contribution limits upward in years ahead.

Others are warning that the IRA changes may have some side effects on the U.S. private pension system. Some analysts foresee that the IRA availability will encourage employees to leave company thrift or savings plans and defined contribution plans. If lower paid people drop out of the thrift plans in order to establish IRA's, the thrift plans could potentially risk losing IRS tax-qualified status, because the IRS rules were set up to discourage companies from setting up plans which benefit only higher level employees.

Furthermore, IRA's may become more attractive than employee plans because employees can control IRA investments personally, and employees who change jobs frequently will also prefer to establish their own account.

Others have voiced concern about the IRA impact on defined contribution plans, which constitute three out of four pension plans. Because mandatory contributions by employees to these plans are not tax deductible but employee contributions to IRA's are tax deductible, that could encourage employees not to participate in defined contribution plans. Experts are predicting that adjustments in the employee contributions to defined contribution plans will be necessary if they are to compete effectively with IRA's. We may see efforts by employers to match one-half of the employee contributions to an IRA or to reduce the employee contribution to the defined contribution plan and increase the employer's matching contribution.

Future debate will also evaluate the advisability of making mandatory employee contributions to company plans tax deductible. This was considered but not accepted during consideration of the Economic Recovery Tax Act of 1981, largely because the revenue losses would have been substantial and the net increase in savings was not estimated to be as large. Nevertheless, this issue of tax deductible mandatory contributions will still be considered. It was proposed, for example, in S. 1541, the Retirement Income Incentives and Administration Simplification Act of 1981, and recommended by experts who testified on that bill before the Labor Subcommittee in November 1981, as well as by other groups testifying on social security before the Joint Economic Committee on September 22-23, 1981.

The new tax incentives for ESOP's are also expected to encourage expansion of that savings vehicle. Supporters of the provision argue that the number of ESOP plans—particularly the TRASOP plans—could double by 1984, because the payroll-based tax credit will make TRASOP's attractive for new sectors of the economy, and because the increased deductions for principal payments on leveraged ESOP's—and the unlimited deduction for interest payments—will make those plans more attractive to employers. The effect of the latter changes will be to improve the quality of the plans and the size of the stock ownership by employees, as well as to encourage new plans.

Others contend that the changed TRASOP tax credit will expand the number of plans but won't really increase employee ownership of the firm by much—or increase retirement savings by much—because the limits on the tax credit between 1983 and 1987 are a cumulative 3.25 percent of total compensation—which isn't much savings.

Some issues about ESOP promotion still need to be resolved, particularly the delicate question of determining the market value of the shares of closely held companies. Leveraged ESOP's have drawn concern because of a 1980 General Accounting Office (GAO) report[18] which looked at 16 ESOP's, 3 of which were public companies, and 13 of which were closely held concerns. The study found no problems with the publicly held companies, but within the group of closely held companies, GAO found indications of overvalued stock, a lack of market in which to sell the shares, and insufficient voting rights for plan members.

Still, the ESOP concept is viewed positively by Congress, and the concept is often applauded by employees as a chance for a greater share in their company's fortune and hailed by employers as an innovative way of financing the company's expansion. If anything, one might anticipate greater improvements in the ESOP legislation and continued popularity with employers and employees in the years ahead. Nevertheless, because the value of the shares of company stock varies so dramatically with the fortunes of the company, it can never be expected that ESOP plans will provide the major portion of total retirement income, although they will undoubtedly play a growing role in supplementing social security and other employee benefits.

By far the most important factors that could increase overall personal savings in the future are the broad reductions in individual tax rates and the indexing of the tax system in 1985 to prevent individuals from falling into higher tax brackets. On this impact of the tax changes, the jury is still out. The reductions in personal tax rates, and the indexing provisions in particular, are likely to be reevaluated by the 98th Congress in terms of their overall economic effects and their impact on Federal Budget deficits.

Because of the estimated changes in the population's age structure, however, analysis suggests there will be a gradual increase in personal savings over the next 40 to 45 years.[19] As the baby boom generation enters middle age in the 1980's, this demographic change should tend to increase savings because middle-aged people tend to save more. This positive demographic trend is projected to continue through the first quarter of the 21st century, but as the baby boom generation reaches advanced age toward the middle of the next century, total personal savings could decline, in relative terms, because of the lower savings flow of the large, over 65 group. Such forecasts, however, are based on savings surveys that are 10 to 20 years old. There also have been substantial policy changes since those surveys were conducted—namely the expansion of social security and private pensions of the elderly.

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[18] U.S. General Accounting Office. Employee Stock Ownership Plans: Who Benefits Most in Closely Held Companion. June 20, 1980.

[19] Wachtel, Paul. The Impact of Demographic Changes On Household Savings, 1950-2050. President's Commission on Pension Policy. Coming of Age: Toward A National Retirement Income Policy. Technical appendix, chapter 30.

In conclusion, the data on savings are not satisfactory. Many questions remain unanswered. But based on what we do know, because of the tax changes and the demographic changes, savings could well play a larger role in supplying income to the elderly in the future, although probably not for the low-income elderly.

Part II

LOW-INCOME ASSISTANCE PROGRAMS

Despite the historical emphasis on providing a reliable source of retirement income through social security, private pensions, and savings, public policy has long recognized the need for programs to supplement the basic incomes of those who do not qualify for earnings-related benefits or whose income from all sources is insufficient to maintain a minimum standard of living. Assistance programs have, therefore, played a vital role in assuring a minimum level of income to the poor and to low-income elderly.

Four basic categories of assistance programs play an especially important role in providing income support to the needy aged—supplemental security income (SSI), food stamps, assisted housing, and low-income energy assistance. Congressional action in 1982 made some reductions in the combined level of these Federal income assistance programs. SSI and food stamps were affected by only modest cuts, however; no major authorizing changes were enacted for assisted housing programs. Fiscal year 1983 funding for 14,000 units of section 202 housing for the elderly and handicapped was provided by the Congress. However, no funds were appropriated for the section 8 new construction/rehabilitation and public housing new construction programs.

Congress acted to increase the appropriation for the low-income energy assistance program (LIEAP) for fiscal year 1982 by $100 million above the authorized level of $1.875 billion, bringing the total appropriation for the year to $1.975 billion, despite the fact that the administration had proposed to severely limit this program in its 1983 budget request.

As resources for Federal programs, in general, are increasingly recognized as being insufficient to meet the needs of all groups, public policy in recent years has focused, and will continue to focus, on the issue of targeting, that is, the goal of spending limited Federal funds in a way that the benefits go principally, if not exclusively, to those who need them. This goal is particularly important in the case of means-tested programs, which are, by design, aimed at assisting those with poverty or near-poverty incomes.

Unfortunately, relatively limited data exist which illustrate how well means-tested programs are targeted; and the data which do exist have serious deficiencies. The Department of Health and Human Services has undertaken some recent efforts to improve this data, through, in particular, the income survey development program, which was designed to test new methods of collecting more complete and accurate income, asset, and program participation data. The initial findings from this survey include data on multiple receipt of different benefits.[1]

Table 1 presents the number of households that received each of five selected types of benefits in 1979, as well as the percentage of each that also received benefits from one or more of the other selected programs. The social security benefits and the unemployment benefits shown in the table, it must be emphasized, are not means-tested benefits; they are payable as a matter of right to individuals who meet the eligibility requirements. Also, the benefits included in table 1 do not include all the noncash means-tested benefits available, such as medicaid or public housing subsidies. Despite these limitations, the table provides a useful measure of the degree to which means-tested benefits supplement other benefits, both of those which are means-tested and those which are not. It shows that more than four-fifths of the households receiving food stamps or public assistance, and more than three-fourths of those receiving SSI payments, also received at least one of the other types of benefits under consideration. The table also reveals that far smaller proportions of the households receiving earnings-related entitlements were also in receipt of at least one of the other selected benefits; only 16 percent of those with social security (OASDI) and 28 percent of those receiving unemployment compensation also received one of the other benefits.

TABLE 1.—HOUSEHOLDS RECEIVING BENEFITS FROM ONE OR MORE OF FIVE MAJOR PROGRAMS IN EARLY 1979 [1]

Source of benefits	Total number of beneficiary households (in thousands)	Percentage distribution			Approximate standard error of percentage
		Total	Benefits under one program	Benefits under more than one program [1]	
Social security program	21,917	100	83.8	16.2	0.8
Food stamps	5,234	100	16.6	83.4	1.9
Unemployment compensation	4,154	100	72.3	27.7	2.3
Federally administered SSI	3,615	100	23.3	76.7	2.6
Public assistance [2]	3,295	100	16.8	83.2	2.4

[1] Each wave of the 1979 panel has a fixed reference period of 3 months. The overall panel, however, was divided into three equally sized, independent subsamples interviewed at monthly intervals beginning in February 1979. Thus, the calendar reference months for each subsample are overlapping but not the same. For the February 1973 subsample, the reference months are November and December 1978 and January 1979; for the March subsample, December 1978 and January and February 1979; and for the April subsample, January, February, and March 1979.

[2] Public assistance includes AFDC payments, general assistance, emergency assistance, and other cash welfare payments received from State or local welfare departments, excluding State-administered supplemental security income payments. In early 1979, about 60,000 individuals were receiving State-administered but not federally administered payments. About 200,000 other recipients of State-administered SSI payments were concurrently receiving federally administered payments and are included in that row of the table.

Source: Social Security Bulletin, November 1981.

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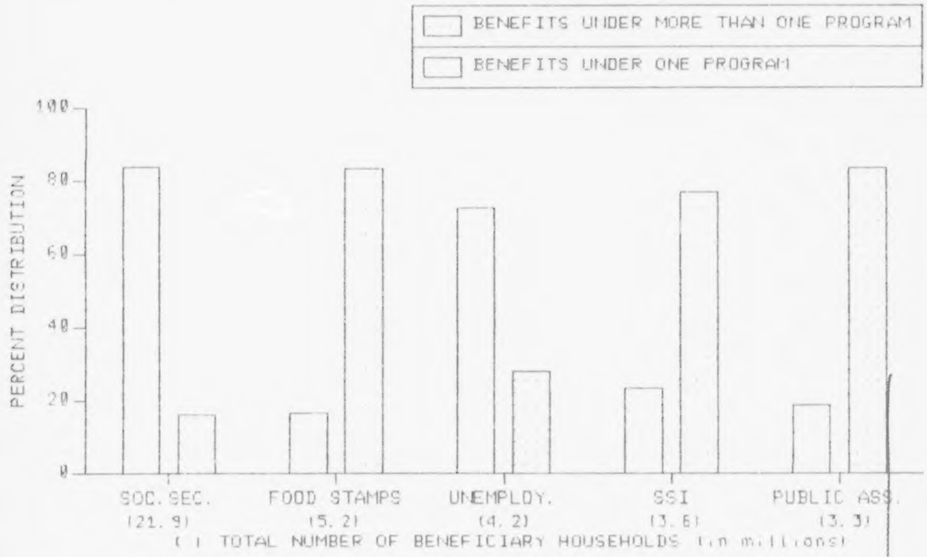
[1] Ycas, Martynas A., and Charles A. Lininger. The Income Survey Development Program: Design Features and Initial Findings. Social Security Bulletin. November 1981, v. 44, No. 11, pp. 13-19.

CHART 1

HOUSEHOLDS RECEIVING BENEFITS
FROM ONE OR MORE OF FIVE PROGRAMS IN EARLY 1979



SOURCE: SOCIAL SECURITY BULLETIN, NOVEMBER 1981, Vol. 44 No. 11

TABLE 2.—PATTERNS OF MULTIPLE RECEIPT OF BENEFITS UNDER FIVE MAJOR PROGRAMS [1] IN EARLY 1979 [2]

[Household units]

Source and pattern of benefits [3]	Number of households (in thousands)	Approximate standard error	Percentage distribution
Households receiving one or more of the five types of assistance	30,025	509	100.0
Only one type of assistance	23,642	464	78.7
OASDI only	18,375	414	61.2
Unemployment compensation only	3,005	176	10.0
Food stamps only	868	111	2.9
SSI only	842	109	2.8
Public assistance only	552	88	1.8
Two or more types of assistance	6,383	332	21.3
Only two	4,726	278	15.7
Food stamps and public assistance	1,585	152	5.3
OASDI and SSI	1,128	127	3.8
OASDI and food stamps	527	86	1.8
OASDI and unemployment compensation	459	80	1.5
Unemployment compensation and food stamps	379	96	1.3
SSI and food stamps	361	71	1.2
OASDI and public assistance	199	52	.7
Other combinations	88	30	.3
Three or more types of assistance	1,657	156	5.6
Only three	1,507	148	5.1
OASDI, SSI, and food stamps	773	105	2.6
OASDI, food stamps, and public assistance	210	54	.7
SSI, food stamps, and public assistance	189	51	.6

TABLE 2.—PATTERNS OF MULTIPLE RECEIPT OF BENEFITS UNDER FIVE MAJOR PROGRAMS [1] IN EARLY 1979 [2]—Continued

[Household units]

Source and pattern of benefits [3]	Number of households (in thousands)	Approximate standard error	Percentage distribution
Unemployment compensation, food stamps, and public assistance or OASDI	193	45	.6
OASDI, SSI, and public assistance	142	44	.5
Four or more types of assistance	150	46	.5
OASKI, SSI, food stamps, and public assistance	90	35	.3
Other combinations	60	25	.2

[1] Cash payments for old-age, survivors, and disability insurance (OASDI), federally administered supplemental security income (SSI), public assistance, unemployment compensation, and food stamps. Other benefit programs were excluded; had any of them been included, multiple program participation would have increased.

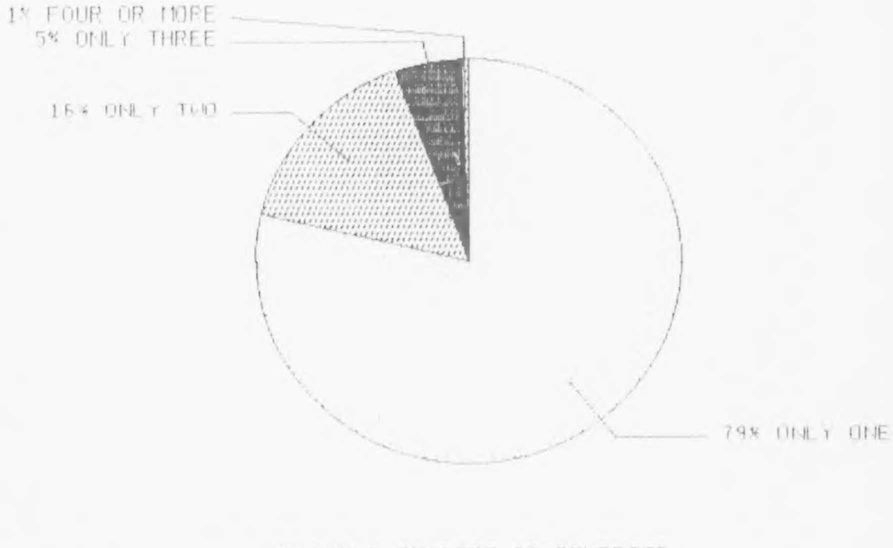
[2] See footnote 1, table 1.

[3] See footnote 2, table 1.

Source: Social Security Bulletin, November 1981.

CHART 2

PATTERNS OF MULTIPLE RECEIPTS OF BENEFITS UNDER FIVE PROGRAMS IN 1979



MULTIPLE RECEIPT OF BENEFITS

SOURCE: SOCIAL SECURITY BULLETIN 1981, Vol. 44, No. 11

But as table 2 shows, it is only a minority of households which receive benefits from one or more of the five selected programs. Of the 30 million households receiving benefits, nearly 80 percent received only one benefit, which was generally social security benefits. Only 21 percent received benefits from two or more programs; 15 percent received only two of the benefits; 5.6 percent received three or more types of assistance; and 0.5 percent received four or more types of assistance.

The most recent data on the multiple receipt of means-tested cash and noncash benefits by the elderly is shown in table 3, compiled by the Census Bureau. Table 3 shows the number of households in which the head of the household is age 65 and over, and the number of such households receiving means-tested benefits. Among the 17.3 million households with an aged person as head of the household, in March 1982, 3,185,000, or some *18.4 percent,* fell below the Federal Government's 1981 poverty line. Yet nearly *70 percent of these households in poverty did not receive any cash public assistance, such as supplemental security income (SSI), aid to families with dependent children, or other means-tested cash assistance.* And just about 50 percent of this poverty group did not receive any noncash means-tested assistance, such as medicaid, food stamps, or public housing subsidies. Forty-nine percent (1,561,000 households) of the households in poverty received no cash public assistance or noncash public assistance.

Among the minority (30.4 percent) of aged households below the poverty line which received cash assistance, about 96 percent received at least one noncash means-tested benefit in addition. Of this limited group receiving both cash and noncash public assistance (924,000 households), about 35 percent received only one noncash benefit in addition to the cash benefit; 50 percent received two noncash benefits in addition to the cash assistance; 15 percent received three noncash benefits in addition to the cash assistance; and one-half of 1 percent received four noncash benefits in addition to cash assistance.

TABLE 3.—HOUSEHOLDS WITH A HEAD OF HOUSEHOLD AGE 65 AND OVER: [1] BY NUMBER OF SELECTED CASH AND NONCASH MEANS-TESTED PUBLIC ASSISTANCE BENEFITS RECEIVED, AND POVERTY STATUS, 1981

[Numbers in thousands]

Noncash benefits	All income levels			Below current poverty level [2]			Above poverty level [2]		
	Total	Not receiving cash public assistance [3]	Receiving cash public assistance [3]	Total	Not receiving cash public assistance [3]	Receiving cash public assistance [3]	Total	Not receiving cash public assistance [3]	Receiving cash public assistance [3]
Total	17,312	15,664	1,648	3,185	2,218	967	14,127	13,446	681
Not receiving noncash benefit	13,777	13,698	79	1,604	1,561	44	12,172	12,137	35
Receiving at least 1 noncash benefit	3,535	1,966	1,570	1,581	657	924	1,955	1,309	646
Receiving 1 noncash benefit only [4]	2,481	1,740	741	848	529	320	1,633	1,211	422
Receiving 2 noncash benefits [4]	857	205	652	575	114	461	282	91	190
Receiving 3 noncash benefits [4]	190	19	171	152	14	138	37	5	33
Receiving all 4 noncash benefits [4]	7	1	6	5	....	5	3	1	1

[1] Households as of March 1982.

[2] Households are classified according to the poverty status of the family or the nonfamily head of household, based on income for 1981 and the poverty level for 1981.

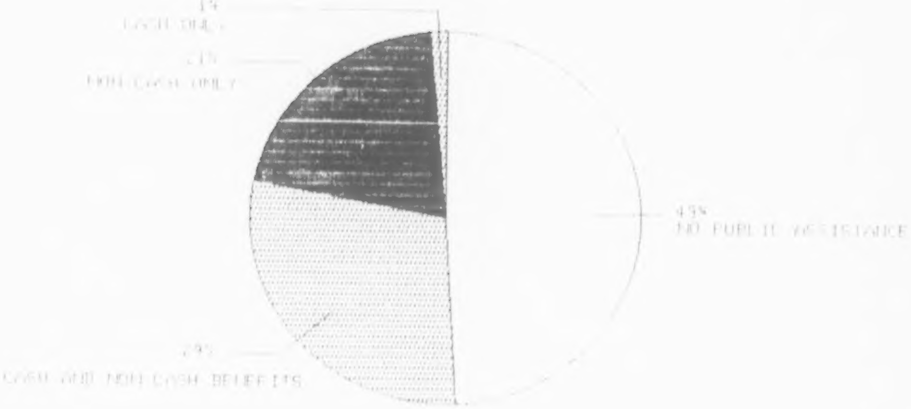
[3] Means-tested cash public assistance: SSI, AFDC, or other cash assistance, such as general assistance, emergency assistance, refugee assistance.

[4] Means-tested noncash public assistance benefits: Food stamps, free or reduced-price school lunches, publicly owned or other subsidized housing, medicaid.

Source: U.S. Dept. of Commerce. Census Bureau.

CHART 3

DISTRIBUTION OF CASH AND NON-CASH PUBLIC ASSISTANCE
AMONG HOUSEHOLDERS AGE 65 AND OVER
AND WITH INCOMES BELOW THE POVERTY LEVEL



SOURCE: BUREAU OF THE CENSUS, UNPUBLISHED DATA

Other combinations and analyses can be derived from table 3. But clearly, one of the overriding conclusions is that half of the more than 3 million aged households in poverty receive no cash or noncash public assistance. And of those 30 percent of poverty households fortunate enough to receive cash assistance, about two-thirds receive up to two noncash means-tested benefits in addition to the cash assistance. The distribution of means-tested assistance among these aged households whose income falls below the poverty level is clearly skewed. This uneven participation on the part of the population most in need continues to challenge public policymakers as they try to address the unmet needs of low-income elderly individuals and families.

Chapter 7

SUPPLEMENTAL SECURITY INCOME

In 1982, the major legislative action affecting the supplemental security income (SSI) program grew out of the consideration of the President's fiscal year 1983 budget request. The proposals advanced in the President's budget, however, were substantially modified by the Congress in the first budget resolution and in the Tax Equity and Fiscal Responsibility Act of 1982. In the end, the budget savings agreed to by the Congress amounted to $116 million in fiscal year 1983, compared to $201 million requested by the administration. SSI recipients are elderly, disabled, or blind.

Congress also modified SSI law to disregard private home energy assistance payments when computing an individual's income for SSI purposes. (Federal energy assistance payments were already not counted.)

The Social Security Administration's management of the program of continuing disability investigations (CDI's) and of the collection of outstanding overpayments were both the subject of intense controversy due to the manner in which these programs were carried out.

Among its final recommendations, the National Commission on Social Security Reform recommended that the current disregard of $20 of social security benefits under SSI law be increased to $50 in an effort to soften the impact of another of the Commission's recommendations: A 6-month delay in the payment of the social security cost-of-living increases.

A. PROGRAM OVERVIEW

Enacted in 1972 as title XVI of the Social Security Act, the supplemental security income (SSI) program is designed to provide a floor of income for aged, blind, and disabled people who have little or no income and resources.

The SSI program is administered by the Social Security Administration and is funded from general tax revenues.

The SSI program was implemented in 1974, and replaced three separate State-operated programs which, with Federal financial assistance, had provided aid to the aged, blind, and disabled for almost 40 years.

By transferring recipients to the Federal rolls, establishing uniform income limits, and standardizing eligibility rules, the Congress expected the new program to help eradicate the "welfare" stigma that was associated with the previous programs.

Since July 1982, the maximum Federal monthly payment is $284.30 for an eligible individual and $426.40 for an eligible couple.

TABLE 1.—MAXIMUM FEDERAL PAYMENT LEVELS UNDER SSI

Eligibility status	Benefit level	
	July 1981 to June 1982	July 1982 to June 1983
Individual:		
Living in own household	$264.70	$284.30
Living in another's household	176.47	189.54
Couple:		
Living in own household	397.00	426.40
Living in another's household	264.67	284.28
Individual receiving institutional care in medicaid facility	25.00	25.00
Essential person [1]	132.60	142.50

[1] An "essential person" is generally an ineligible spouse or relative whose needs were considered in determining the requirements of an eligible individual under the former State program but who is not eligible for SSI.

Benefit levels are increased automatically each year in July to reflect the increase in the Consumer Price Index (CPI), if the CPI rises by 3 percent or more during a specified 1-year period. The method is the same one used to increase social security benefits.

The law requires benefit reduction by one-third for those who live in another person's household and who receive support and maintenance from that person or persons.

States are encouraged to supplement the Federal SSI benefits voluntarily to provide a higher level of assistance than the Federal program provides. More than half of the States are currently supplementing the Federal benefits by amounts ranging up to $261 a month for aged individuals who live independently.

TABLE 2.—MAXIMUM SSI OPTIONAL STATE SUPPLEMENTARY PAYMENT LEVELS (FEDERAL AND STATE) FOR AN AGED INDIVIDUAL LIVING INDEPENDENTLY WITH NO OTHER INCOME AS OF JULY 1, 1982

	Combined Federal/ State payment level	Maximum Federal payment	State supplementation
Alabama	$284.30	$284.30	0
Alaska*	445.30	284.30	$261.00
Arizona	284.30	284.30	0
Arkansas	284.30	284.30	0
California	451.00	284.30	166.70
Colorado	341.00	284.30	56.70
Connecticut [1]	402.10	284.30	117.80
Delaware	284.30	284.30	0
District of Columbia	299.30	284.30	15.00
Florida	284.30	284.30	0
Georgia	284.30	284.30	0
Hawaii	299.50	284.30	15.20
Idaho*	284.30	284.30	0
Illinois [2]	([4])	([4])	([4])
Indiana	284.30	284.30	0
Iowa	284.30	284.30	0
Kansas	284.30	284.30	0
Kentucky	284.30	284.30	0
Louisiana	284.30	284.30	0
Maine	294.30	284.30	10.00
Maryland	284.30	284.30	0
Massachusetts	421.52	284.30	137.22
Michigan	306.60	284.30	24.30
Minnesota	319.00	284.30	34.70
Mississippi	284.30	284.30	0

TABLE 2.—MAXIMUM SSI OPTIONAL STATE SUPPLEMENTARY PAYMENT LEVELS (FEDERAL AND STATE) FOR AN AGED INDIVIDUAL LIVING INDEPENDENTLY WITH NO OTHER INCOME AS OF JULY 1, 1982—Continued

	Combined Federal/ State payment level	Maximum Federal payment	State supplementation
Missouri	284.30	284.30	0
Montana	284.30	284.30	0
Nebraska	369.00	284.30	84.70
Nevada	331.00	284.30	46.70
New Hampshire*	308.00	284.30	23.70
New Jersey	309.30	284.30	25.00
New Mexico	284.30	284.30	0
New York	347.51	284.30	63.21
North Carolina	284.30	284.30	0
North Dakota	284.30	284.30	0
Ohio	284.30	284.30	0
Oklahoma	363.30	284.30	79.00
Oregon*	296.30	284.30	12.00
Pennsylvania	316.70	284.30	32.40
Rhode Island	334.52	284.30	50.22
South Carolina	284.30	284.30	0
South Dakota	299.30	284.30	15.00
Tennessee	284.30	284.30	0
Texas	284.30	284.30	0
Utah	294.30	284.30	10.00
Vermont [3]	331.50	284.30	47.20
Virginia	284.30	284.30	0
Washington [3]	322.60/302.15	284.30	38.30/17.85
West Virginia	284.30	284.30	0
Wisconsin	384.00	284.30	99.70
Wyoming	304.30	284.30	20.00

[1] Estimate based on a 3-percent increase in the State supplement.
[2] State budgets each case individually regardless of living arrangement.
[3] State has geographic variations.
[4] Not available.

Source: Department of Health and Human Services unless noted by asterisk(*).

Other States provide supplements to persons in specific circumstances. States may elect to administer their own optional supplementary payments, or may contract with the Social Security Administration for Federal administration so that the combined monthly payment of Federal and State benefits is included in a single check issued by the Federal Treasury. Under a "grandfather" clause, States must also maintain the benefit levels of former public assistance recipients transferred to the SSI program. These mandatory supplements may also be administered by either the Federal Government or the State, at State election. If a State chooses Federal administration of its State supplements, the cost of administration is paid by the Federal Government. Under this option, the State must generally make supplements to all those who meet Federal eligibility rules. If a State elects to administer its own supplementation program, it must pay the cost, but may restrict eligibility to a more limited population.

Since July 1977, States which supplement Federal SSI benefits have been required to pass through Federal SSI cost-of-living increases. A State can meet this requirement by either (1) maintaining the December 1976 level of State supplementation payment for recipients, or (2) providing no less than the total aggregate amount of State supplementation paid by the State in the previous 12-month period.

Benefits under SSI are paid to individuals who are 65 or older, blind, or disabled, meet certain income limitations, and who do not have assets of more than $1,500 as an individual or $2,250 as a couple. The value of a person's home is not counted as a resource for SSI eligibility, but the Secretary of the Department of Health and Human Services (HHS) is required to establish, through regulations, limits on the value of automobiles, household goods, and personal effects which can be excluded from consideration.

TABLE 3.—*Basic SSI eligibility conditions*

Aged	65 or older.
Blind	Vision no better than 20/200 or limited visual field of 20 degrees or less with the best corrective eyeglasses.
Disabled	A physical or mental impairment which prevents a person from doing any substantial work and is expected to last at least 12 months or result in death.
Resource limits[1]	$1,500 per individual; $2,250 per couple.
Income limits[2]	Below $284.30 a month per individual; below $426.40 a month per couple.
Citizenship	U.S. citizen or immigrant lawfully admitted for permanent residence or otherwise residing in the United States under color of law.
Residency	Resident of the United States or the Northern Mariana Islands.

[1] Not all resources are counted in determining eligibility.

[2] Not all income is counted in determining eligibility. Also, a person may have income above the limit and possibly be eligible for a State supplement only, but the income levels vary with each State.

NOTE.—Disabled must accept vocational rehabilitation if available. Disabled addicts and alcohlics must accept appropriate treatment if available.

The current asset limits set by regulation are $4,500 in market value for an automobile, and $2,000 in equity value for household goods and personal effects. The value of an automobile or household goods and personal effects in excess of those limits is counted toward the asset limit for eligibility. Regulations also provide guidelines for determining the countable value of certain other assets, such as life insurance policies.

Currently, about 3.5 million persons receive Federal SSI payments. Another 401,000 have incomes too high to be eligible for Federal payments but receive federally administered State supplements. Of those receiving Federal payments, about 1.4 million recipients qualify by reason of age; and 2.1 million by reason of disability or blindness. Nineteen percent of disabled recipients and 31 percent of blind recipients are over the age of 65, however, and are not classified as "aged recipients" because they initially qualified under the program by reason of disability or blindness.

In January 1974, more than 3.2 million persons received federally administered SSI payments. By the end of that year, the number had grown to 4 million. The peak caseload occurred in April 1976, when 4.4 million persons received SSI payments. Thereafter the pattern reversed, and for 6 years the total dropped slowly but unevenly; the number of SSI recipients is currently about 3.9 million.

TABLE 4.—SUPPLEMENTAL SECURITY INCOME: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF PAYMENT, SEPTEMBER 1982

Type of payment	Number of persons			
	Total	Aged	Blind	Disabled
Total	3,907,121	1,588,102	77,678	2,241,341
Federal SSI payments	3,506,098	1,361,626	68,510	2,075,962
Federal SSI payments only	2,335,578	976,947	41,912	1,316,719
Federal SSI and State supplementation	1,170,520	384,679	26,598	759,243
State supplementation	1,571,543	611,155	35,766	924,622
State supplementation only	401,023	226,476	9,168	165,379

Source: Social Security Administration

B. RECENT TRENDS AND RESEARCH

Three studies published in the Social Security Bulletin in 1982 shed some light on various aspects of the SSI program: "Trends and Changes, 1974-1980" by Lena Kennedy, July 1982, vol. 45, No. 7; "Low-Income Aged: Eligibility and Participation in SSI," May 1982, vol. 45, No. 5; and "Employment and Supplemental Security Income" by Arthur Kahn, October 1982, vol. 45, No. 10.

1. DECLINING AGED PARTICIPATION

Between 1974 and 1980 the population of the country over age 65 increased from 21.8 to 25.5 million; yet the proportion of those over age 65 who receive SSI payments declined from 10.5 percent in 1974 to 8.7 percent in 1980. Only the District of Columbia and California showed an increase in persons over 65 enrolled in the SSI program.

TABLE 5.—NUMBER AND PERCENT OF U.S. POPULATION AGED 65 OR OLDER RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, BY REGION, DIVISION, AND STATE, DECEMBER 1974 AND DECEMBER 1980

Region, division, and State	Population aged 65 or older (in thousands)		SSI recipients aged 65 or older		Percent of population receiving SSI	
	1974 [1]	1980 [2]	1974	1980	1974	1980
United States	21,815	25,542	2,285,909	2,225,797	10.5	8.7
Northeast	5,440	6,072	389,768	395,890	7.2	6.5
New England	1,345	1,520	114,652	109,790	8.5	7.2
Maine	122	141	12,998	11,474	10.7	8.1
New Hampshire	86	103	3,173	2,521	3.7	2.4
Vermont	51	58	4,702	4,499	9.2	7.7
Massachusetts	661	727	77,944	73,781	11.8	10.2
Rhode Island	111	127	6,870	7,907	6.2	6.2
Connecticut	314	364	8,965	9,608	2.9	2.6
Middle Atlantic	4,095	4,552	275,116	286,100	6.7	6.3
New York	1,998	2,161	171,712	172,965	8.6	8.0
New Jersey	749	860	38,087	40,516	5.1	4.7
Pennsylvania	1,348	1,531	65,317	72,619	4.8	4.7
North Central	6,020	6,689	351,832	304,449	5.8	4.6
East North Central	4,009	4,491	209,833	202,051	5.2	4.5
Ohio	1,050	1,169	54,311	45,941	5.2	3.9
Indiana	522	585	23,819	18,378	4.6	3.1

TABLE 5.—NUMBER AND PERCENT OF U.S. POPULATION AGED 65 OR OLDER RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, BY REGION, DIVISION, AND STATE, DECEMBER 1974 AND DECEMBER 1980—Continued

Region, division, and State	Population aged 65 or older (in thousands)		SSI recipients aged 65 or older		Percent of population receiving SSI	
	1974 [1]	1980 [2]	1974	1980	1974	1980
Illinois	1,134	1,261	46,386	52,060	4.1	4.1
Michigan	798	912	49,311	49,512	6.2	5.4
Wisconsin	505	564	36,006	36,160	7.1	6.4
West North Central	2,011	2,198	141,999	102,398	7.1	4.7
Minnesota	432	480	19,803	16,835	4.6	3.5
Iowa	360	387	17,710	12,739	4.9	3.3
Missouri	591	648	71,453	47,948	12.1	7.4
North Dakota	72	80	5,056	3,830	7.0	4.8
South Dakota	84	91	5,718	4,485	6.8	4.9
Nebraska	191	206	9,137	6,586	4.8	3.2
Kansas	281	306	13,122	9,975	4.7	3.3
South	6,893	8,483	1,122,273	1,029,243	16.3	12.1
South Atlantic	3,440	4,363	387,801	410,988	11.3	9.4
Delaware	48	59	3,490	3,141	7.3	5.3
Maryland	333	396	17,580	21,037	5.3	5.3
District of Columbia	71	74	5,392	6,383	7.6	8.6
Virginia	410	505	38,202	41,772	9.3	8.3
West Virginia	206	238	20,446	17,945	9.9	7.5
North Carolina	473	602	74,776	79,774	15.8	13.2
South Carolina	219	287	43,098	47,121	19.7	16.4
Georgia	413	517	94,868	88,063	23.0	17.0
Florida	1,267	1,685	89,949	105,752	7.1	6.3
East South Central	1,404	1,657	325,298	282,573	23.2	17.1
Kentucky	364	410	59,555	49,493	16.4	12.1
Tennessee	429	518	77,007	73,525	18.0	14.2
Alabama	365	440	103,683	87,464	28.4	19.9
Mississippi	246	289	85,053	72,091	34.6	24.9
West South Central	2,049	2,463	409,174	335,682	20.0	13.6
Arkansas	264	312	60,138	50,706	22.8	16.2
Louisiana	337	404	99,820	76,889	29.6	19.0
Oklahoma	328	376	54,797	41,385	16.7	11.0
Texas	1,120	1,371	194,419	166,702	17.4	12.2
West	3,463	4,298	421,928	496,200	12.2	11.5
Mountain	811	1,061	64,354	58,119	7.9	5.5
Montana	73	85	3,942	2,987	5.4	3.5
Idaho	76	94	4,289	3,349	5.6	3.6
Wyoming	32	37	1,394	925	4.4	2.5
Colorado	204	247	21,689	15,304	10.6	6.2
New Mexico	86	116	12,016	13,848	14.0	12.0
Arizona	211	307	13,842	14,678	6.6	4.8
Utah	88	109	3,692	3,186	4.2	2.9
Nevada	41	66	3,490	3,842	8.5	5.8
Pacific	2,652	3,237	357,574	438,081	13.5	13.5
Washington	354	431	21,157	19,789	6.0	4.6
Oregon	251	303	11,063	9,538	4.4	3.1
California	1,986	2,415	318,835	401,496	16.1	16.6
Alaska	8	12	1,516	1,511	19.0	13.1
Hawaii	53	76	5,003	5,747	9.4	7.5

[1] Bureau of the Census, Statistical Abstract of the United States, 1975, table 36. Data as of July 1.

[2] Bureau of the Census, 1980 Census of Population, Supplementary Reports (PC-80-S1-1), table 2.

Source: Social Security Bulletin, July 1982, vol. 45, No. 7.

The actual number of SSI recipients, initially at 3.2 million blind, aged, and disabled persons, rose to 4.4 million in 2 years and then gradually declined to 4.2 million by the end of 1980.

TABLE 6.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS, BY TYPE OF PAYMENT AND REASON FOR ELIGIBILITY, 1974–80

Month and year	Total	Federally administered payments [1]	Federal SSI [2]	Total with State supplementation	Federally administered supplementation		State administered supplementation	
					Total [3]	State supplementation only	Total [4]	State supplementation only
				All persons				
January 1974	3,248,949	3,215,632	2,955,959	1,838,602	1,480,309	259,673	358,293	33,317
December 1974	4,027,572	3,996,064					300,724	31,508
December 1975	4,359,625	4,314,275	3,893,419	1,987,409	1,684,018	420,856	303,391	45,350
December 1976	4,285,340	4,235,939	3,799,069	1,912,550	1,638,173	436,870	274,377	49,401
December 1977	4,287,044	4,237,692	3,777,856	1,927,340	1,657,645	459,836	269,695	49,352
December 1978	4,265,483	4,216,925	3,754,663	1,946,781	1,681,403	462,262	265,378	48,558
December 1979	4,202,741	4,149,575	3,687,119	1,941,572	1,684,283	462,456	257,289	53,166
December 1980	4,194,254	4,142,017	3,682,411	1,934,279	1,684,765	459,606	249,514	52,237
				Aged				
January 1974	1,889,898	1,865,109	1,690,496	1,022,244	770,318	174,613	251,926	24,789
December 1974	2,307,722	2,285,909					193,057	21,813
December 1975	2,333,685	2,307,105	2,024,765	1,028,596	843,917	282,340	184,679	26,580
December 1976	2,175,442	2,147,697	1,867,318	934,586	774,226	280,379	160,360	27,745
December 1977	2,077,808	2,050,921	1,765,147	906,636	754,187	285,774	151,131	26,887
December 1978	1,995,976	1,967,900	1,685,651	885,827	739,028	282,249	146,799	28,076
December 1979	1,903,384	1,871,716	1,593,486	859,101	718,207	278,230	140,894	31,668
December 1980	1,838,406	1,807,776	1,533,366	837,411	702,763	274,410	134,648	30,630
				Blind				
January 1974	73,850	72,390	55,680	45,828	37,326	16,710	8,502	1,460
December 1974	75,528	74,616					5,898	912
December 1975	75,315	74,489	68,375	36,309	31,376	6,114	4,933	826
December 1976	77,223	76,366	69,083	38,215	33,484	7,283	4,731	857
December 1977	78,368	77,362	69,534	38,868	34,401	7,828	4,467	1,006
December 1978	78,027	77,135	68,192	39,214	35,022	8,943	4,192	892
December 1979	78,110	77,250	67,973	39,603	35,666	9,277	3,937	860
December 1980	79,139	78,401	68,945	39,847	36,214	9,456	3,633	738
				Disabled				
January 1974	1,285,201	1,278,122	1,209,783	769,501	672,575	68,350	96,926	7,068
December 1974	1,644,322	1,635,539					101,769	8,783
December 1975	1,950,625	1,932,681	1,800,279	922,229	808,725	132,402	113,504	17,944
December 1976	2,032,675	2,011,876	1,862,668	939,711	830,463	149,208	109,248	20,799
December 1977	2,130,868	2,109,409	1,943,175	981,524	869,057	166,234	112,467	21,459
December 1978	2,191,162	2,171,890	2,000,820	1,014,467	907,037	171,070	107,430	19,272
December 1979	2,220,824	2,200,609	2,025,660	1,036,240	930,410	174,949	105,830	20,215
December 1980	2,276,258	2,255,840	2,080,100	1,050,118	945,788	175,740	104,330	20,418

[1] All persons with Federal SSI payments and/or federally administered State supplementation.

[2] All persons with Federal SSI payments whether receiving Federal payments only or both Federal SSI and federally administered State supplementation.

[3] All persons with federally administered State supplementation whether receiving State supplementary payments only or both Federal SSI and federally administered State supplementation.

[4] All persons with State-administered State supplementation whether receiving State supplementary payments only or both Federal SSI and State-administered State supplementation.

Source: Social Security Bulletin, July 1982/vol. 45, No.7

The fall in total caseload since 1975 and the changes in recipient mix defied projections made at the beginning of the program. As Lena Kennedy remarks:

> The fall in the total caseload masks other changes of different directions and magnitudes that appear when the caseloads for recipients are examined by reason for eligi-

> bility. In the following discussion it is important to note that the SSI classifications "aged," "blind," and "disabled" are based on the reason for the individual's initial eligibility. The SSI program does not reclassify "blind" and "disabled" recipients as "aged" at age 65.
>
> In January 1974, the number of aged recipients—those whose eligibility is based on age and financial need—was almost 1.9 million. By the end of 1975, this number had increased by 23 percent to over 2.3 million. In 1976 a decline began, even sharper than that evident in the total caseload. By December 1980, "aged" recipients totaled 1.8 million, a drop of more than one-fifth.
>
> In contrast, the number of persons whose eligibility was based on blindness or disability increased from 1974 to 1980. The number of blind recipients rose from just under 74,000 in January 1974 to 79,000 by the end of 1980 (7.2 percent). However, the most significant growth in the SSI program in this period was among those whose eligibility was based on disability. In December 1973, 1.3 million persons received APTD (aid to the permanently and totally disabled) payments. The first 12 months of the SSI program produced a net increase of 28 percent, to 1.6 million disabled recipients. This was followed by another 19-percent increase during 1975 and smaller gains in succeeding years. By December 1980, there were more than 2,276,000 disabled recipients, of whom 222,000 were children, either under age 18 or between ages 18 and 22 if students.
>
> When the caseload is distributed by age, it becomes apparent that the proportion of the SSI population aged 65 or older has declined—from 61 percent in January 1974 to 54 percent in December 1980. Within this group, those classified as blind or disabled have increased from 87,000 to 419,000 (or from 3 to 10 percent of the total caseload).[1]

The Social Security Administration estimates that only 65 to 70 percent of those over 65 who are eligible for SSI payments actually take advantage of the program. Many reasons have been advanced to explain this phenomenon. The Social Security Administration was able to find some correlation between two factors: States, that prior to the Federal takeover of the various programs in 1974, imposed liens on property as a condition of participation, and those States that supplement the Federal payments.

One of the theories thought to explain nonparticipation is that eligible nonrecipients may be eligible only for small payments and may, therefore, feel it is not worth the effort to apply. If this were the case, one would expect participation in the Federal program to be significantly higher in States that provide supplements to Federal payments than in States that do not.

SSA did find slightly higher participation rates in the States providing State supplements, as shown in table 7. The difference, however, was not large enough to be statistically significant. Similarly, participation rates are slightly lower in the States that had, in the past, imposed liens on the property of assistance recipients. This difference also is not statistically significant. Only when the effects of both past and current State policies are combined do participation rates vary significantly. The participation rate is highest for study sites with State supplements and no past lien laws. The lowest rate is for States with prior lien laws and no State supplements.

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[1] Social Security Bulletin, July 1982/vol. 45, No.7

TABLE 7.—*SSI program participation rates by site characteristics for a sample of low-income aged in 34 Social Security Administration district office locations*

	Participation rate
State policy:	
State supplement	73
No State supplement	67
Former lien law	69
No former lien law	73
Combined effect:[1]	
State supplement and no lien law	79
State supplement and lien law	69
No State supplement and no lien law	70
No State supplement and lien law	60

[1] The difference in participation rates was found to be significant at the 5-percent level of confidence.

2. EMPLOYMENT OF SSI RECIPIENTS

In a related development, Members of Congress and past administrations started to analyze those provisions of the SSI program that worked as disincentives for the blind and disabled to leave the SSI program and engage in substantial gainful employment.

As a result, the Social Security Disability Amendments of 1980 (Public Law 96–265) included changes that were meant to encourage SSI recipients to engage in work. Aside from some severe dislocations and controversy surrounding the Social Security Administration's speedup of disability investigations and apparent mishandling of many reviews, the thrust to encourage SSI recipients who are blind or disabled to leave the program will probably continue.

As mentioned earlier, some of the changes made by the 1980 disability amendments were designed to encourage disabled SSI recipients to return to work. These include:

(1) *Special monthly benefits.* Cash benefits (and medicaid services) will continue for disabled recipients who have completed the 9-month trial work period and continue to earn at or above the level that is considered substantial gainful activity (SGA). Previously these benefits were terminated after the trial work period if earnings continued above the SGA level, even if the earnings were not high enough to reduce the cash benefit to zero. Medicaid benefits may, if necessary, continue for up to 36 months after cash benefits cease.

(2) *Deduction of impairment-related work expenses.* Severely disabled people often must incur significant costs to enable them to work; for example, transportation costs, special equipment, drugs to control their condition, attendant-care services, and other medical and nonmedical services. Under Public Law 96–265 some portion of these expenses may be deducted from earnings before a determination is made as to whether the work constitutes SGA.

(3) *Considering money earned in sheltered workshops as earned income.* This change allows recipients who work in sheltered workshops or work-activity centers to have the benefit of the earned income exclusions that were not available when these moneys were considered unearned income.

The law provides that the Social Security Administration monitor and evaluate the impact of these changes and report its findings to the Congress at the end of the 3-year special benefits experiment. Data are not yet available on the number of disabled recipients who have been affected by these changes.

Baseline data on earnings for SSI recipients has been gathered by the Social Security Administration and can be used to measure the success or failure of the 1980 disability amendments in the next few years.

The current status of SSI recipients with some employment has been summarized by Arthur Kahn:

> In February 1979, approximately 123,000 persons, or about 3 percent of all recipients of federally administered SSI payments, were employed. This porportion has remained about the same since the beginning of the program. Not only do few SSI recipients work, but those who do work have low earnings—an average of $88 per month in 1979. Because of income exclusions, an average of only 17 percent of these earnings was considered countable income in determining the amount of the SSI payment.
>
> Although the overall percentage has not changed, the SSI recipients working in early 1979 were younger than those found in an earlier study.[2] The dollar amount of their monthly earnings rose from $75 in 1975 to $88 in early 1979, an increase of 17 percent. During the same period, however, the national average hourly earnings increased 26 percent. The employment rate among disabled recipients increased, while that for aged recipients decreased.

Of the 123,000 employed SSI recipients, 2 percent were aged, 6 percent were blind, and 4 percent were disabled, as the following chart indicates:

TABLE 8.—SUPPLEMENTAL SECURITY INCOME: NUMBER AND PERCENT OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS WITH EMPLOYMENT, AND AVERAGE MONTHLY EARNINGS, FEBRUARY 1979 AND DECEMBER 1975

Reason for eligibility	All SSI recipients	Number employed	Percent with employment	Average monthly earnings
	February 1979			
Total	4,226,528	[1] 123,326	2.9	$87.53
Adults	4,026,040	121,634	3.0	87.33
Aged	1,962,124	40,188	2.0	75.69
Blind	71,568	4,142	5.8	313.95
Disabled	1,992,348	77,304	3.9	81.25

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[2] U.S. Social Security Administration. Office of Research and Statistics. Employment and Earnings of SSI Beneficiaries, December 1975. Research and Statistics Note No. 4, 1977.

TABLE 8.—SUPPLEMENTAL SECURITY INCOME: NUMBER AND PERCENT OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS WITH EMPLOYMENT, AND AVERAGE MONTHLY EARNINGS, FEBRUARY 1979 AND DECEMBER 1975—Continued

Reason for eligibility	All SSI recipients	Number employed	Percent with employment	Average monthly earnings
Children	200,488	1,692	.8	101.95
Blind	5,883	55	.9	166.97
Disabled	194,605	1,637	.8	99.76
	December 1975			
Total	4,314,275	115,617	2.7	$74.56
Adults	4,186,100	114,483	2.7	74.52
Aged	2,307,105	58,906	2.6	63.48
Blind	70,143	4,569	6.5	232.34
Disabled	1,808,852	51,008	2.8	73.07
Children	128,175	1,134	.9	88.65
Blind	4,346	75	1.7	166.29
Disabled	123,829	1,059	.9	83.14

[1] Caseload figures for the same time period indicate 129,600 SSI recipients employed. The difference between that figure and the study file represents persons with earnings in February whose SSI payments are scheduled for termination.

Source: Social Security Bulletin, October 1982/vol. 45, No. 10.

The limited research that does exist seems to indicate that some proportion of blind and disabled recipients currently receiving SSI payments can engage in competitive employment. The Social Security Administration is currently in the process of awarding contracts to further study this area, and it seems clear that much attention will be focused on the real employability of persons with disabilities in the coming years.

C. 1982 LEGISLATIVE AND ADMINISTRATIVE CHANGES

1. Federal Budget Changes

The Reagan fiscal year 1983 budget would have reduced SSI expenditures by $201 million in that year as a result of eight separate legislative proposals.[3]

Of the administration's eight SSI budget proposals, the one of primary concern to the elderly was the proposal to end the $20 unearned income disregard. Under current law, $20 per month of an individual's income from social security, pensions, or other unearned income is disregarded in determining SSI eligibility and payment amounts. This change would have affected roughly 135,000 aged recipients in fiscal year 1983, according to an administration estimate.

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[3] CBO estimates. The administration budget projected SSI spending to rise from $7.9 billion in fiscal year 1982 to $9.2 billion in fiscal year 1983, with proposed savings of $286 million.

TABLE 9.—IMPACT OF PROPOSED SSI BUDGET CHANGES

[Administration estimates][1]

Proposal	Effective date	Fiscal year 1982 savings (millions)	Fiscal year 1983 savings (millions)	Beneficiaries affected
Rounding payment to lowest dollar	July 1, 1982	$3	$20	All but 200,000 in medicaid institutions by an average 50 cents a month; 35 percent are aged recipients.
Prorate 1st month's benefit	July 1, 1982	10	40	All new beneficiaries (135,000 in fiscal year 1982; 550,000 in fiscal year 1983); 35 percent are aged recipients.
24-mo disability prognosis	July 1, 1982	5	45	New beneficiaries (5,000 in 1982; 35,000 in 1983).
Emphasize medical factors in disability determination.	July 1, 1982	10	75	New beneficiaries (15,000 in 1982; 80,000 in 1983).
End $20 unearned income disregard	Jan. 1, 1983	([2])	15	New beneficiaries (300,000 in 1983) by $240 a year; 45 percent are aged.
Recover SSI overpayments from social security benefits.	Oct. 1, 1982	([2])	16	All overpaid recipients.
Phasing out hold harmless payments	Fiscal year 1983	([2])	30	States of Wisconsin and Hawaii (will probably absorb the change).
Coordinating SSI/social security COLA adjustments.	July 1, 1982	50	45	All on the rolls in July (45 percent of Federal caseload in any year); 55 percent are aged recipients.
Total		78	286	

[1] CBO's baseline projection of the number of new beneficiaries is lower than the administration's, and, therefore, CBO's estimate of the aggregate savings that would result from the administration's proposals would also tend to be lower than the estimates shown here.

[2] Not applicable.

Currently, 39 percent of SSI disability recipients are age 50 to 64. The President's budget proposed two changes in the disability program which could also have had an impact on older persons. First, the administration proposed a 24-month rather than a 12-month prognosis of disability. Second, it was proposed that greater weight be given to medical factors in determining disability, to insure that the determination is based on a preponderance of medical factors.

None of these three administration proposals was approved by the Congress.

The first concurrent resolution of the budget assumed reduced expenditures for the aid to families with dependent children (AFDC), child support enforcement, and supplemental security income (SSI) programs. For these three programs, combined savings of $593 million were assumed for fiscal year 1983, $705 million for fiscal year 1984, and $928 million of fiscal year 1985. The legislative changes necessary for the SSI program to achieve these savings were included in the 1982 tax bill. Four of the administration's eight proposed changes were adopted as follows:

(1) Prorating the first month's SSI benefits from the date of application or the date of eligibility, whichever is later, in the month of application.

(2) Rounding SSI monthly benefits to the next lower dollar, except that the administration proposal was modified so that cost-of-living adjustments in subsequent years will be based on the unrounded benefit amounts, so that the provision will not have a cumulative effect from year to year.

(3) Coordinating SSI and social security cost-of-living adjustments to correct a technical flaw in the 1981 Omnibus Budget Reconciliation Act; and

(4) Phasing out the "hold-harmless" provisions for Hawaii and Wisconsin.

In addition, the new legislation allows for the exclusion from the limit on resources of up to $1,500 in burial plots and contracts, creating an increase in Federal spending of $5 million per year. The bill also made two other technical changes that will have no cost impact or adverse effects on SSI beneficiaries.

TABLE 10.—SUPPLEMENTAL SECURITY INCOME [1]

[Outlays in billions]

	Fiscal year—			
	1982	1983 [3]	1984 [3]	1985
Baseline [2]	$7.7	$8.7	$7.6	$8.4
Administration budget		8.5	7.2	7.9
1982 tax bill		8.6	7.5	8.3

[1] CBO estimates.

[2] Prior to enactment of 1982 tax bill.

[3] Since the first day of the first month of fiscal year 1984 falls on a weekend, the first benefit check for 1984 is paid on the last weekday of 1983, thus making 1983 a year of 13 monthly benefit payments and 1984 a year of 11 monthly benefit payments.

TABLE 11.—BUDGET IMPACT OF INDIVIDUAL SSI PROVISIONS IN THE 1982 TAX BILL

[In millions]

	Fiscal year—		
	1983	1984	1985
Prorate SSI benefits	−$26	−$28	−$32
Round SSI benefits	−20	−25	−30
SSI accounting period	−45	−41	−43
Phase out hold harmless	−30	−37	−45
Exclude burial plots and contracts	+5	+5	+5
Mandatory passthrough under SSI	0	0	0
Unnegotiated SSI checks	0	0	−1
Total	−116	−126	−144

2. PRIVATE ENERGY ASSISTANCE PAYMENTS TO BE DISREGARDED

During the closing days of the "lame-duck" session of the 97th Congress, another legislative change was made in the SSI program, to exclude from countable income any private home energy assistance payments which are based on need. The change was offered as an amendment to the Surface Transportation Act (H.R. 6211), introduced by Chairman Heinz and committee members Durenberger, Domenici, Percy, Kassebaum, Cohen, Pressler, Grassley, Glenn, Pryor, and Bradley. The amendment was accepted by the Senate and by the House/Senate conferees as section 545 of the Surface Transportation Assistance Act of 1982 (Public Law 97-424).[4]

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[4] A somewhat different version of this amendment was also adopted as part of the continuing resolution (H.J. Res. 6311), which is found in the continuing resolution, House Report No. 97-980, p. 193.

Section 545 adds to the items which are not counted as income certain types of assistance provided to help AFDC and SSI recipients meet their home energy needs. Any such assistance in cash or in kind would be excluded from income if it is based on the individual's need for assistance with home energy costs (both heating and cooling) and is furnished by a home heating oil or gas supplier or by a utility company (including a municipal utility) which provides home energy. Assistance of this type provided by a nonprofit organization would also be excluded from income but only if it is in-kind assistance, i.e., it is paid directly to the supplier and not to the recipient. In the case of the AFDC program, the exclusion provided by the amendment would be optional with each State. The amendment applies to assistance provided from the month after enactment through June 1985. Prior to April 1985, the Secretary of Health and Human Services is required to report on the implementation of this change.

3. CONTINUING DISABILITY INVESTIGATIONS

The 1980 amendments to the Social Security Act, as applied to the SSI program, provide for the disability status of recipients to be reviewed at least once every 3 years, but with longer intervals between reviews for those considered permanently disabled. When the administration presented its budget for fiscal year 1983, it announced that the Social Security Administration would review in that fiscal year some 433,000 social security beneficiaries, 174,000 SSI recipients, and 199,000 people receiving both social security and SSI payments.

The program of continuing disability investigations aroused widespread congressional concern as evidence mounted concerning: (1) The heavy workload imposed on State agencies resulting from the high volume of reviews, and (2) the quality of the decisions being rendered at the initial level of review, about two-thirds of which were reversed when individuals appealed their denials to an administrative law judge (ALJ). A full discussion of this issue can be found in this volume under social security disability.

The emergency bill (H.R. 7093), which passed the House and the Senate on December 21, 1982, and was signed by President Reagan on January 12, 1983 (Public Law 97-455), continues payment of social security disability benefits through the administrative law judge's decision for people terminated before October 1, 1983 (subject to recovery if the termination decision is upheld). Under SSI, however, an individual terminated for medical reasons already had the option of receiving benefits through the administrative law judge's decision, so Public Law 97-455 made no change in that regard. Public Law 97-455 allows the Secretary to slow down the volume of reviews, on a State-by-State basis, as conditions dictate. This would affect the volume of SSI reviews as well.

Public Law 97-455 also provides that if, as a result of a continuing disability investigation, it is determined that an individual is not entitled to title II disability benefits, any reconsideration of that determination may be made only after opportunity for a face-to-face evidentiary hearing. Such hearings must be offered no later than January 1, 1984. The administration has indicated that it in-tends to apply this requirement to SSI determinations also. At the present time, appeals of SSI termination decisions go directly to the ALJ hearing level, bypassing the reconsideration process. This will no longer be the case. Under the new procedure, appeals of SSI terminations will first be reconsidered at a face-to-face hearing which, under the statute, may be held either by the State disability agency or by the Federal Government. If the termination decision is upheld at the reconsideration level, the SSI beneficiary (like the title II beneficiary) may then appeal the decision before an administrative law judge.

4. COLLECTION OF OVERPAYMENTS

The SSI statute authorizes the Secretary of HHS to recover SSI overpayments by adjusting future payments, or by recovery from the recipient. Overpayments may be waived if the individual is without fault and if recovery would defeat the purpose of the program, or be against equity or good conscience, or the amount to be recovered is so small as to impede efficient or effective administration.

According to the Social Security Administration, there were 1.6 million SSI overpayments at the start of fiscal year 1982, valued at $955 million. During that year, overpayments amounting to an additional $472 million were detected.

As part of a major governmentwide effort by the Reagan administration to improve Federal debt management, the Social Security Administration undertook several initiatives to increase collections of SSI overpayments. Included in the 1983 budget proposals was an amendment to give SSA authority to recover SSI overpayments from benefits payable under other programs administered by the Social Security Administration (i.e., black lung and OASDI benefits) through automatic reduction in those benefits. This proposal was not enacted by the Congress. However, SSA has instituted an administrative procedure to collect SSI overpayments from title II benefits by sending notices to recipients seeking voluntary agreements authorizing SSA to withhold the amounts overpaid from title II checks. A number of suits have been filed seeking to enjoin the administration from using these notices, alleging that cross program recovery is contrary to the statutory prohibition against assignment of title II benefits, and alleging that the notices used violate due process in that they do not inform individuals of their procedural rights to reconsideration and waiver of overpayments.

Another major initiative by SSA involved requesting all SSI recipients and applicants to sign a consent form authorizing the Internal Revenue Service to disclose to SSA all tax information from any information return relating to the individual's receipt of income. Use of these consent forms has also been challenged in the courts, with plaintiffs alleging lack of statutory authority, and that the notices are misleading and coercive.

SSA has reported that during fiscal year 1982 it recovered about $292 million in overpayments, and waived about $50 million in overpayments.

D. NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

The 15-member panel which studied social security financing in 1982 included among its recommendations issued in January 1983, one recommendation affecting the SSI program. As discussed in chapter 3, as part of its recommendation for a 6-month delay in the cost-of-living adjustments (COLA) paid under social security, the National Commission attached a recommendation that the amount of the disregard of OASDI benefits for purposes of determining the supplemental security income payments should be increased from $20 to $50, at an annual budget cost of $750 million. Part of the justification for this recommendation, which runs directly counter to the recommendation in the President's fiscal year 1983 budget proposals, is that the amount of the disregard has not been adjusted since the SSI program was implemented in 1974. But, as further justification, if the cost-of-living adjustments were delayed by 6 months as the National Commission recommended, increasing the amount of the unearned income disregard would have the effect of protecting some of the poorest of the elderly and the disabled from the adverse effects of a COLA delay.

The National Commission did not make any recommendation regarding the timing of the recommended change in the disregard. Nor did it address the timing of the SSI cost-of-living adjustment, which is currently, as is the case for social security benefits, paid in July. Would SSI COLA's also be delayed? The National Commission also did not clarify whether the recommended increase in the disregard would apply to all unearned income, as under current law, or solely to social security benefits.

On January 25, 1983, Aging Committee Chairman John Heinz sponsored, along with Senator Robert Dole and others, a bill (S. 1) to implement the consensus recommendations of the National Commission on Social Security Reform. S. 1 would delay the payment of social security cost-of-living increases by 6 months, postponing payment of the next benefit increase from July 1983 to January 1984. Since the bill language makes no specific exception for SSI, the COLA delay would also apply to the SSI benefit adjustments. The bill also contains a disregard under SSI of $50 per month of social security benefits, effective July 1983. The effect of this change would be to increase SSI payments to those recipients who also receive social security benefits, and thereby soften the impact of the SSI COLA delay on those SSI recipients who also receive social security. As of December 1981, 50 percent of all SSI recipients also received social security benefits: 70 percent of those classified as aged SSI recipients also received social security benefits, while only 36 percent of disabled SSI recipients and 38 percent of blind SSI recipients also received social security benefits. As introduced, S. 1 did not address the problem of offsetting the impact of the COLA delay on those SSI recipients who do not receive social security benefits.

Chapter 8

FOOD STAMPS

The food stamp program was created in 1964 to increase the food purchasing power of low-income households. Since its inception, the program has been of enormous benefit in meeting the basic daily living needs of these households and older Americans in particular. In 1982, the cost of the food stamp program was $10.2 billion, an amount $400 million below 1981 program costs. Food stamp expenditures slightly decreased, despite growing rates of unemployment that tend to expand the eligible population, because of 1981 legislation restricting eligibility and benefit amounts.

In 1982, President Reagan's fiscal year 1983 budget request assumed savings of $2.3 billion from enactment of several proposed program changes. The majority of these changes were rejected by Congress. Savings proposals totaling $548 million were signed into law. Over half of these fiscal year 1983 savings will be achieved through delays and revisions in the measurement periods of cost of living adjustments to the standard deduction and benefit levels, respectively.

A. ELDERLY PARTICIPATION

Several legislative changes have been made to the food stamp program over the last few years. The major change affecting the elderly has been the elimination of the purchase requirement (EPR) in the Food Stamp Act of 1977. Prior to implementation of this act, most households were required to pay cash for their stamps. The value of the stamps they received was greater than the purchase price and the benefit of the program was derived from that difference.

Many eligible households were unable to take advantage of the program because they had difficulty acquiring and accumulating the cash required to obtain stamps. In addition, some households were reluctant to exchange their scarce cash resources for food stamp "coupons." Federal studies conducted in 1977 indicated that only about 40 percent of all eligible older persons participated in the program. Since elimination of the purchase requirement, program participation among the aged has steadily grown. The Department of Agriculture announced in early 1981 that participation by households headed by the elderly increased by 32 percent from February 1978 to April 1979. The most recent data from the Department of Agriculture indicates that participation by households headed by an elderly individual has increased by 42 percent. Over 9 percent of the program's 20.6 million participants in August 1981 were 60 years of age or older.

B. CONGRESSIONAL ACTION

Food stamp program eligibility and benefit amounts are federally established. Income eligibility standards vary according to whether a household has special expenses for shelter, dependent care, and/or medical care. Each participating household's monthly food stamp allotment is determined by reducing the maximum monthly allotment to which it would be entitled if it had no countable income by 30 percent of any countable income. Maximum monthly allotments are calculated based on the Department of Agriculture's "thrifty food plan" estimates of the cost of a nutritionally adequate diet. These allotments are adjusted to household size and periodically adjusted for food price changes.

In addition to using their food stamps in grocery markets, senior citizens may use them to purchase meals in congregate eating facilities. Food stamps can buy meals served in senior citizen centers, senior citizen occupied apartment buildings, public or private nonprofit schools, and any other public or private nonprofit establishment that feeds older Americans. The elderly may also use food stamps to buy prepared meals delivered to their homes by meals-on-wheels and similar organizations.

Congressional efforts in 1977, 1980, and 1981 focused on reducing the cost of the food stamp program by restricting eligibility and growth in benefit amounts. However, enactment of these provisions have not resulted in major decreases. Decreases have not been achieved primarily because of increased participation among eligibles due to the elimination of the purchase requirement and increasing rates of unemployment in the Nation. In fiscal year 1982, program expenditures totaled $10.2 billion, $400 million less than in the previous year.

TOTAL ANNUAL RECIPIENTS AND BENEFIT AMOUNTS

Fiscal year	Total recipients (in millions)	Total benefit payments (in billions)
1977	17.1	$5.1
1978	16.0	5.2
1979	17.7	6.5
1980	21.1	8.7
1981	22.4	10.6
1982	21.7	10.2
1983 [1]	22.0	11.2
1984 [1]	21.5	10.9

[1] Estimated.

The legislative changes made by Congress to the food stamp program in 1981 excluded the elderly from tightened eligibility limits beginning in 1982. However, other program changes did reduce the purchasing power of older recipients in 1982. Under the 1981 law, benefit levels, formerly adjusted annually each January to reflect food price inflation, were delayed until October 1982, with future adjustments to be made in October of each year thereafter. Adjusting benefit levels in October 1982 was expected to have an impact on elderly households who also receive social security and supplemental security income benefits.[1] In July 1982, these households were to receive their social security and/or SSI cost-of-living adjustment. That increase was to then be counted against their food stamp benefits resulting in a reduction of their benefits equal to 30 to 45 percent of the increase they had just received. When the food stamp cost-of-living adjustment was then made 3 months later, these benefits were to be partially or totally restored. Synchronization of these benefit increases, by not allowing social security and SSI cost-of-living increases to be counted against food stamp benefits until October 1, 1982, were estimated to require an additional $25 million in fiscal year 1982 expenditures. The 1981 legislation also froze the $85 per month "standard deduction" through June 1983. After this time, inflation adjustments were to be made in July 1983, October 1984, and in October of each year thereafter.

In 1982, President Reagan's budget requested $9.5 billion for the food stamp program for fiscal year 1983. The request assumed that $2.3 billion in savings would result from enactment of several proposed program changes. An estimated $273 million was assumed to be saved in fiscal year 1982 from early enactment of these proposals. A fiscal year 1982 supplemental appropriation of $1 billion was requested.

Of those legislative proposals included in the administration's budget, four were estimated to have a direct effect on elderly households now eligible to receive food stamp benefits. They were as follows:

(1) *Raising the "benefit reduction rate" from 30 to 35 percent.*—This proposal required households to spend 35 percent (rather than 30 percent) of their disposable incomes on food. Most elderly would have had their food stamps cut by an amount equal to approximately 5 percent of their disposable incomes. Approximately $1 billion of the administration's total estimated fiscal year savings of $2.3 billion was assumed to result from enactment of this benefit cut affecting almost all food stamp program participants.

(2) *Eliminating the $10 minimum benefit for one- and two-person households.*—One- and two-person households with low enough income and assets to meet the food stamp eligibility test receive at least a $10 minimum monthly benefit under 1981 law. The Congressional Budget Office estimated that approximately 850,000 households would either be terminated or have their benefits reduced below $10 under this proposal. Three-fourths of those affected were calculated to be elderly or disabled households with one-half having gross incomes below the poverty line. Total savings from all households affected by this provision were estimated to be $32 million in fiscal year 1983.

(3) *Counting low-income energy assistance payments as income in determining household eligibility and benefit levels.*—Under this proposal all older Americans receiving energy assistance payments would lose food stamp benefits. The number of older Americans participating in both the energy assistance program and the food stamp program is unknown. However, it was believed by the administration that 40 percent of those receiving energy assistance are elderly persons and that a significant number of aged persons

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[1] 1982 legislation subsequently changed this provision.

also receive food stamps and would probably be affected. For each $10 received in energy assistance, it was estimated that households could lose up to $5.25. Some older persons could be made ineligible for food stamp benefits in winter months, as energy payments provided to either themselves or fuel suppliers lift them over food stamp income eligibility limits. The proposal was assumed to reduce food stamp expenditures by $231 million in fiscal year 1983.

(4) *Rounding benefit amounts so that amounts in excess of whole dollars would be dropped from benefit calculations and payments.*—Rounding rules used in 1981 are based on the standard rules used by the Internal Revenue Service. It was estimated that most elderly food stamp households would experience what would amount to an across-the-board benefit reduction of $1 to $2 a month under this proposal.

In addition to the above recommended changes, President Reagan proposed combining the existing Federal reimbursement for State administrative food stamp costs with those of other welfare programs into a single block grant. Funding for the block grant would be limited, for fiscal year 1983 and succeeding years, to 95 percent of the projected fiscal year 1982 Federal share of State administrative costs in these programs. The administration assumed $43.3 million in fiscal year 1983 savings from enactment of this proposal. The President also recommended that the States be held to a firm target for reducing erroneous eligibility and benefit determinations so that by 1986 there would be no Federal participation in erroneous payments. Over $600 million in fiscal year 1983 savings were estimated to result from implementation of this action. Under the administration's New Federalism plan, financing and administration of the food stamp program would become a State responsibility in 1987.

On February 25, 1982, the Senate Special Committee on Aging held a hearing to determine the impact of the administration's fiscal year 1983 food stamp and nutrition program proposals on older Americans. At this hearing, testimony was received from the administration and several expert and community leaders knowledgeable about the nutritional status of older persons, and the usefulness of Federal food stamp and nutrition programs in maintaining this status.

Hearing witnesses pointed out that the food stamp program is one element of an intricate and interrelated network of programs and services for needy older persons. For example, many elderly food stamp recipients also benefit from one or more other needs-based programs, such as supplemental security income, medicaid, assisted housing, or low-income energy assistance. It was emphasized that a loss of benefits from one or more of these programs could be devastating to older persons since they rely on fixed incomes and do not have the physical ability or resources to compensate for this loss. The concern was repeatedly expressed that simultaneous cuts in food stamp and other benefit programs would ultimately prevent many elderly from meeting the minimum dietary needs basic to good health.

The administration and other expert witnesses testified that 87 percent of 1982 food stamp households with elderly members would be affected by the administration's fiscal year 1983 proposals. Of this 87 percent, 23 percent would be excluded from the program with an average loss of $14 per month. An additional 5 percent would continue to be eligible for a small amount of benefits but probably would not participate. Benefits for 59 percent of households with elderly members would be reduced to an average amount of $16 per month.

Based on information gathered at the hearing, the members of the committee sent a letter to the Senate Committee on Agriculture recommending that the administration's major food stamp proposals not be approved by the committee.

The fiscal year 1983 first concurrent resolution on the budget assumed food stamp program savings of $779 million in fiscal year 1983, $1.1 billion in fiscal year 1984, and $1.4 billion in fiscal year 1985. The 1982 Omnibus Budget Reconciliation Act included amendments to the food stamp statute that are estimated to achieve savings of $548 million in fiscal year 1983, $635 million in fiscal year 1984, and $756 million in fiscal year 1985. Although these savings amounts are lower than those assumed in the budget resolution, the House and Senate Agriculture Committees legislated reductions in other program areas within their jurisdiction to meet their savings targets. The provisions in the Reconciliation Act affecting the elderly include:

(1) *Revisions of the measurement periods for each October's adjustment of the cost of the thrifty food plan.*—Under this provision, the October 1, 1982, adjustment of the cost of the thrifty food plan was calculated by (i) adjusting the plan to reflect changes in the cost of food covered by the plan during the 21-month period ending June 30, 1982, (ii) reducing the cost of the plan by 1 percent, and (iii) rounding the resulting figure. The cost adjustment to the thrifty food plan scheduled for October 1, 1983, and October 1, 1984, will be calculated by (i) adjusting the plan to reflect changes in the cost of food covered by the plan during the 12-month period ending the preceding June 30, (ii) reducing the cost of the plan by 1 percent, and (iii) rounding the resulting figure. The cost adjustment scheduled for October 1, 1985, and each October 1 thereafter will be calculated by (i) adjusting the plan to reflect changes in the cost of food covered by the plan during the 12-month period ending the preceding June 30, and (ii) rounding the resulting figure. Savings are estimated to be $180 million in fiscal year 1983.

(2) *Delay in the adjustment of the standard deduction until October 1, 1983.*—Under previous law, a cost-of-living adjustment was scheduled for July 1, 1983. Fiscal year 1983 savings are estimated to be $42 million.

(3) *Rounding of benefit amounts so that amounts in excess of whole dollars are dropped from benefit calculations and payments.*—Similar to the administration's proposal, this provision is estimated to save $70 million in fiscal year 1983.

(4) *Coordination of cost-of-living adjustments.*—This section of the Reconciliation Act corrects the previously discussed problem with the synchronization of food stamp benefits with other Federal income security programs such as social security, SSI, and railroad retirement. Enactment of this provision is estimated to cost $25 million in fiscal year 1983.

The President's requested $1 billion supplemental appropriation for the food stamp program in fiscal year 1982 was provided by the Congress. For fiscal year 1983, the Congress provided $10.8 billion in appropriations for food stamp benefits and other program costs. A supplemental appropriation will be required in early 1983 to assure funding of program benefits for all eligible food stamp recipients.

Chapter 9

HOUSING

OVERVIEW

As the number of older persons as a percentage of the Nation's total population has increased, the number of households headed by the elderly has also risen. Over one-fifth of all U.S. households—some 16 million—are headed by persons 65 or older today. Since one-third of all U.S. households are now headed by a person 55 or older, this growth trend is expected to continue in the future.

The cost of housing is a primary concern of older Americans because they pay a far larger proportion of their incomes for rent than other Americans. For example, the most current statistics indicate that the median rent of an elderly woman living alone consumes almost 50 percent of her income.

Over the years, Congress has focused primarily on the needs of low-income renters. The existing housing portion of the section 8 program provides rental assistance to households occupying existing dwellings. The public housing program and the new construction/substantial rehabilitation portion of the section 8 program were developed to increase the supply of affordable housing for low-income individuals eligible for Federal rental assistance. At the present time, almost 50 percent of the 2.3 million units constructed through these programs are occupied by older Americans.

The section 202 direct loan program for the construction of specially designed low-income housing for the elderly and handicapped, enacted in 1974, has produced another 95,000 new units that are occupied by aged persons. In addition, 1978 legislation authorized the Department of Housing and Urban Development (HUD) to award grants to public housing authorities and section 202 sponsors to provide meals and supportive services to partially impaired elderly and handicapped persons, allowing them to remain in their own dwellings and out of expensive institutions. Over 2,200 elderly are now being served by the congregate housing services program. The demand for this and similarly designed programs that coordinate housing and supportive health care and housekeeping services can be expected to grow. However, no statistics are available indicating the projected level of future demand.

Neither the section 8 nor the section 202 program was designed to provide any form of direct subsidy to project sponsors in meeting their costs of construction and financing. Both were structured to stimulate construction by guaranteeing that low-income occupants would be subsidized thereby assuring occupancy of the developed units. In 1982, like 1981, it was evident that high interest rates in both the public and private financing markets threatened to halt section 8 and section 202 assisted housing production programs unless some sort of development subsidy was made available. By the end of the year limited assistance had been provided to section 8 and section 202 sponsors.

During 1982, the Congress continued reductions in the amount of new funding to construct section 8 and public housing units for fiscal year 1983. By comparison, the section 202 program received a small reduction. Other changes were implemented limiting eligibility for rental assistance and increasing the amount some individuals will be required to pay for rent. Despite the supportive efforts of the Senate Special Committee on Aging, substantial funding for new congregate housing services projects was not provided for fiscal year 1983.

TABLE 1.—SUMMARY OF HUD HOUSING UNITS FOR THE ELDERLY

[All figures represent number of projects/units currently insured by FHA unless otherwise noted, as of Oct. 31, 1982]

Section No.: Program: Status	Projects	Units	Mortgage amount	Number of elderly units	Percent of units
CONSTRUCTION PROGRAMS					
Title II: Low-income public housing: Active	15,110	1,486,344	(6)	[4] [5] 638,375	42.9
202: Direct loans for housing for elderly and handicapped:					
Inactive	+830	45,275	$74,580,000	45,275	100
Active [3]	1,458	106,386	3,967,755,076	95,340	89.6
231: Mortgage insurance for housing elderly: Active	504	66,228	1,172,667,185	66,228	100
221(d)(3): Multifamily rental: Active	3,591	472,514	5,949,219,649	23,892	5.1
221(d)(4): Housing for low and moderate-income families: Active	6,289	675,128	18,075,741,333	92,110	13.6
235: Homeownership: Inactive	[3] 255,435	(6)	4,596,861,864	(6)	(6)
235 rev.: Assistance for low and moderate-income families: Active	80,923	(6)	2,905,475,104	(6)	(6)
207: Multifamily rental housing: Active	1,890	243,308	3,645,929,754	3,376	1.4
236: Rental and co-op assistance for low and moderate-income families: Inactive	4,055	434,308	7,538,768,937	55,279	12.7
202/236: 202/236 conversions: Inactive	181	28,059	480,098,460	28,059	100
232: Nursing home and intermediate care facilities: Active	1,367	[7] 162,062	1,991,577,976	[7] 162,062	100
NONCONSTRUCTION PROGRAMS					
Net reservations	26,371	1,873,827	(6)	782,774	41.6
8: Low-income rental assistance					
Existing: Active	13,969	1,071,792	(6)	305,073	28.5
New construction: [1] Active	10,477	671,617	(6)	425,189	63.3
Substantial rehabilitation: [1] Active	1,925	130,418	(6)	52,512	40.3
312: Rehabilitation loans: Active [2]	86,004	(6)	(6)	6,243	7.25
23: Low rent leased housing: Inactive	(6)	163,267	(6)	+54,000	[8] 35+

[1] Figures do not include section 8 commitments attached to section 202/8 fund reservations.

[2] Figures represent loan commitments only.

[3] Figures represent number of mortgages.

[4] Figure include approximately 250,000 units not specifically designated but used by elderly.

[5] Does not include section 8 units owned by public housing agencies.

[6] Not available.

[7] Beds.

[8] Approximate.

The increasing costs of assisted housing programs due to the double subsidy to both renters and developers resulted in increased attention by the Congress, the administration, and others, on alternative, less expensive ways to meet the housing needs of low-income persons in general and older persons in particular. Creation of a Federal vouchering system and shared housing were alternatives that were seriously discussed. The difficulties faced by "asset-rich" but "income-poor" elderly homeowners received special attention by the committee in its hearings and accompanying committee print on home equity conversions plans.

A. FEDERALLY ASSISTED HOUSING PROGRAMS

1. Section 8

The section 8 program was created in 1974 to provide subsidized housing to households with incomes too low to obtain decent housing in the private market. Under the program, HUD enters into assistance contracts with owners of *existing* housing or developers of *new* or *substantially rehabilitated* housing for a specified number of units to be leased by households meeting Federal eligibility standards. Payments made to owners and developers under assistance contracts are used to make up the difference between what the rental household can afford to pay for rent and what HUD has determined to be the "fair market rent" for the dwelling. At the end of October 1982, it was estimated by HUD that approximately 783,000 or 42 percent, of the more than 1.9 million total section 8 units were occupied by older persons. Over 425,000, or 63 percent, of the newly constructed units were occupied by the elderly.

While the existing housing component of the section 8 program has generally been alluded to as a successful form of assistance, the production component of the program, which was designed to stimulate rather than subsidize private sector construction and substantial rehabilitation of housing for low-income people, has been increasingly viewed as unsuccessful. The concern about the advisability of continuing the program in future years extends beyond the current market financing conditions. Major objections to the program voiced by a number of Members of Congress and the administration include:

(1) The basic structure of the section 8 program which requires a long-term obligation of assistance by the Federal Government in sponsoring a project. Technically, the assistance under the program is directed to low-income households. However, the subsidy is structurally tied to the unit rather than the tenants. Under the program, contracts are signed with the private developer assuring that assistance payment will be made for a specified number of units for a fixed period of up to 40 years assuring their occupancy by low-income tenants over that fixed period. Thus, assistance commitments made by the Federal Government each year require Federal expenditures for exceptionally long periods of time.

(2) The level of rent that is required as a result of constructing an assisted housing unit is usually higher than the amount needed to support a tenant in a unit of existing housing stock.

(3) The amount of unit subsidy agreed to in the section 8 assistance contracts understates the actual spending needs of the projects in future years. At present, the total amount of assistance is calculated by multiplying the length of commitment by the maximum starting rent subsidy levels. There is an assumption implicit in the procedure that tenant contributions in the early years of the subsidy commitment and subsequent increases in tenant contribu-

tions will be sufficient to cover needed rent increases over the life of the assistance agreement. This method of calculation does not anticipate upward changes in rents or changes in tenant incomes and the share of that income that would be paid toward rent. As a result additional Federal dollars may need to be provided to support projects constructed under the section 8 program.

(4) The various forms of low-cost financing that have been used to keep section 8 production going. The program was not structured to provide any form of direct subsidy to project sponsors in meeting their development costs. Each project must meet a "feasibility test" of its ability to support all development (construction and financing) and future operating costs within the range of fair market rent levels established by HUD. However, fair market rent values do not adequately reflect the impact of soaring interest rates on development costs. As private lending rates have risen over the last few years several Federal responses have been formulated to assure construction of section 8 projects. These responses are, in effect, subsidies to the developers. The Government National Mortgage Association (GNMA) tandem program is one example. By purchasing, holding, and subsequently selling mortgages made available to developers of section 8 projects in the private market, GNMA offers loans at below-market interest rates. Projects financed by tax-exempt bonds may also be regarded as subsidized since the tax-exempt status of the bonds results in a loss of revenue to the Federal Government. Another example is the "financing adjustment factor" (FAF) that increases fair market values to reflect the higher costs of borrowing. In 1981 and 1982, tandem funds, FAF, and tax-exempt bond issuances were used to begin construction on section 8 projects that funds had been provided, or reserved for, in previous years.

Prior to fiscal year 1982, assisted families were required to contribute not less than 15 percent and not more than 25 percent of their net incomes toward rent. However, the Omnibus Budget Reconciliation Act of 1981 increased the tenant share from not more than 25 percent to not more than 30 percent of net income. For those renters already living in section 8 units, the adjustment was to be made over a 5-year period and rent increases over 10 percent per year were not to be permitted. Only new tenants were to be subject to the full effect of the change. The act also reduced the income eligibility limit to 50 percent of the median income in the local area from the current limit of 80 percent. It was assumed that this provision would better target low-income housing programs to those who most need assistance. This change was to apply to new tenants and not affect the continued eligibility of tenants with incomes above 50 percent of median income. HUD regulations implementing these changes in the law were promulgated in 1982.

The fiscal year 1983 budget, proposed by the administration in 1982, included a major proposal to restucture the Nation's assisted housing programs. For fiscal year 1982, the President recommended rescinding $9.4 billion, or 33 percent, of the amount of budget authority estimated to be available for funding assisted housing units. For fiscal year 1983, the President recommended shifting Federal housing efforts almost exclusively into rental assistance for tenants in existing housing by: (1) Terminating the new construction of section 8 and public housing projects; (2) replacing, at a reduced subsidy level, the old programs with a vouchering system (modified section 8 existing housing certificate); and (3) authorizing a program of grants to the States and local governments for the rehabilitation of multifamily, low-income properties. This new rehabilitation program was to replace the section 8 modified rehabilitation program and the section 312 rehabilitation program that was phased out in fiscal year 1982. Sufficient section 8 authority and direct loan authority was to be made available under the administration budget for a requested 10,000 units of section 202 housing for the elderly and handicapped.

Under the section 8 new construction/substantial rehabilitation program, HUD pays the difference between 30 percent of an assisted housing tenant's income and the contract rent agreed upon by HUD (or its local agent, the public housing authority) and the unit owner. (This contract rent must be equal to or lower than a fair market rent computed for the unit type in that market area by HUD economists.) Under the modified section 8 existing housing certificate proposed in the fiscal year 1983 budget, HUD's contribution would be based on the difference between an established rent payment standard for each market and 30 percent of a new tenant's rent. The rent standard would be set at the 40th percentile of the distribution of all rents for all rented units of standard quality, excluding new units. As with current law, tenant eligibility would be based on an income standard of 50 percent of area median income.

The administration's new vouchering program would allow tenants to pay more or less than 30 percent of their income for rent. However, HUD's contribution would still be based on a 30 percent of income contribution. Thus, if a tenant could find a unit which is cheaper than HUD's rent standard, that tenant would be able to keep some of the subsidy for other uses. Conversely, if a tenant rents a unit which is more costly than the rent standard HUD uses, that tenant would have to contribute more than 30 percent of income to make up the rent payment. HUD would use the modified certificates in the following ways in fiscal year 1983:

—30,000 certificates in conjunction with a rental rehabilitation initiative proposed by HUD for fiscal year 1983 (see community development).

—60,615 certificates to convert current section 8 existing housing commitments to new modified certificates.

—10,000 certificates for use in conjunction with the sale of HUD-owned properties.

—5,000 certificates to tenants of existing public housing units which are demolished, abandoned, or sold by public housing agencies with HUD's permission.

—1,000 certificates for tenants in properties with section 8 new construction or substantial rehabilitation commitments from prior years, where the owners opt not to renew their 5-year section 8 contracts.

As an additional initiative to reduce Federal spending for assisted housing programs, the administration proposed legislation to increase tenants' rent contributions for fiscal year 1983, for a savings of $428 million. First, the proposed legislation required that in calculating the rent contributions, the cash value of food stamps be counted as cash income. The elderly and female-headed households with children would be the two groups primarily affected by such a proposal. A 1981 study by the Department of Agriculture found that these two groups comprising over 85 percent of all households who participate in both food stamp and housing programs would have their rents increased. Most of the elderly households who would be affected are elderly women living alone. The departmental study further reported that over 80 percent have incomes below $5,000 a year and about half have incomes below $3,000 a year. Second, the proposed legislation required that minimum rents be set to cover at least the cost of utilities, ending the practice of making payments to tenants whose share of unit rent is less than the utility allowance for the unit. HUD estimates that under these proposals, certain tenants would experience rent increases in excess of the currently restricted annual rate of 10 percent. Therefore, the proposed legislation contained provisions to increase the limit to 20 percent.

On April 23, 1982, the Senate Special Committee on Aging held a hearing to examine the impact of the President's proposed legislation on older Americans. Administration officials from HUD, Dr. Ray Struyk of the Urban Institute, and other witnesses knowledgeable about elderly housing policies and problems testified before the committee.

In his testimony, Dr. Struyk discussed the results of his study on the implications of the Reagan program for the elderly renter. He focused primarily on the administration's vouchering proposal. While Dr. Struyk agreed with the administration about the need to place greater emphasis on the use of existing housing stock to house older Americans, his analysis of the administration bill led him to the conclusion that it was "seriously flawed." Although he did not have a conceptual problem with the voucher approach, he did believe that the proposed amount to be made available to recipients on a per voucher basis would be insufficient, and, because of regional differences in housing and other living costs, would result in a disproportionate distribution of benefits among the poor. The major findings of Dr. Struyk's study were as follows:

—There are about 2.3 million elderly households spending over 35 percent of their incomes on housing. Forty-one percent of elderly renters with incomes below the poverty line spend over 45 percent of their income for rent.

—Mobility rates of the elderly are only about one-third of those of the nonelderly with little variation among renters by income level or household type. These low-mobility rates may be found to inhibit participation in housing assistance programs when relocation is necessary to qualify for assistance.

—1.2 million households headed by elderly persons were assisted through one or another of HUD's renter assistance programs by the end of 1980. The elderly constituted about 39 percent of all assisted households. Section 202 and section 8 new construction assisted the elderly at the highest levels. Overall, about 72 percent of the elderly in subsidized housing are being assisted through new construction programs.

—All three major assisted housing programs (section 8, public housing, section 202) were found similar in such participant characteristics as sex of head, household composition, and household size. They did not differ with respect to race. Public housing serves the greatest percentage of blacks, and section 8 the least.

—The 1981 housing legislation made several revisions in assisted housing programs. Each of the changes had a different impact. The largest impact resulted from restricting program eligibility to those with incomes not exceeding 50 percent of area median income. As a result of the new income limits the number of eligible households will be reduced by 32 percent. The elderly were hurt least by this and other changes because, as a group, they are poorer than the nonelderly.

—Thirty-six percent of the elderly assisted housing program participants receive food stamps.

—Counting food stamps as income in determining eligibility for receiving housing assistance would reduce the eligible population by 4 percent with very little difference between elderly headed and nonelderly headed households.

—Under the administration's vouchering proposal, elderly couples would receive payments at lower rates than elderly single persons. Program participation would probably be influenced by the size of the subsidy. Because single persons have lower incomes than couples, a higher participation rate could be expected from them.

—Reliance on a "closed enrollment" vouchering system may put the elderly at a disadvantage in competing with other households for housing assistance because public agencies will be reluctant to do outreach given the limited number of vouchers.

—Benefits for all program recipients would be reduced by an average of 44 percent for the administration's voucher program (including 1981 legislative changes) as compared to the section 8 existing housing program as structured in 1980.

—The proposed vouchering system would cause major changes in the profile of eligible households, and eventually participants. Among the elderly, participants would be poorer and concentrated among women living alone.

Testimony received by the committee from other housing experts was consistent with the major points of the Urban Institute study. The committee also received additional specific testimony from these witnesses on the administration's proposals to count food stamps as income and change the current utility allowance system in the determination of tenant rents. It was generally agreed that these proposals would have a disproportionately higher adverse effect on the poorest of the low-income assisted housing recipients.

During the hearing proceedings, HUD was asked about regulations under consideration to cap the amount of deductions for unreimbursed medical expenses at $300 per year in the calculation of tenant rent payments. The administration stated that the purpose of such a regulation would be to simplify the current, complex system used for determining medical deductions on an individual basis. The $300 figure was a figure HUD determined to be above the average medical allowance now taken by the average elderly section 8 recipient. The National Low Income Housing Coalition and the New England Elderly Housing Association provided information to the committee indicating that while HUD's determination about the average amount of medical deduction might be correct, it would be unfair to handle these deductions in this manner. It was their view that unreimbursable medical expenses are a basic cost of living that can vary substantially from person to person. Low-income elderly persons with the same income but greater medical needs would be forced to pay higher rents than healthier recipients if an average medical deduction were implemented resulting in a lower standard of living for the sickest of the poor. Changes to current medical expense deduction regulations were never officially proposed by the administration in 1982.

The Senate Committee on Banking, Housing, and Urban Affairs reported a comprehensive housing bill, S. 2607, to the Senate in May 1982, that included a number of the administration's proposals with major modifications. S. 2607 was not acted on by the Senate prior to the end of the congressional session. With respect to appropriations, the administration's requested rescission of $9.4 billion for fiscal year 1982 was not approved by the Congress and no new funds were provided for the section 8 new construction/substantial rehabilitation program for fiscal year 1983. The existing section 8 program received funding sufficient for over 67,000 units.

2. SECTION 202

The section 202 program is the primary Federal financing vehicle for constructing housing for older persons that will enable them to remain self-sufficient and independent in our society. Under the program, the Federal Government makes direct loans to private, nonprofit project sponsors to use in developing section 8 housing that is specifically designed to the needs of the low-income elderly and handicapped. Since the program's authorization in 1974, over 95,000 units for the elderly have been constructed.

Like other section 8 projects, section 202 projects must meet the fair market rent feasibility test. As the cost of direct loan borrowing rises, total development costs rise, making it harder to meet this test. The interest rate on the direct loan is tied to the Treasury borrowing rate which until 1981 was below 9 percent. In early fiscal 1981 that rate rose to 9¼ percent with HUD indicating that the rate for fiscal year 1982 could be even higher. Although a large share of projects were able to begin construction in 1981 with the 9¼ percent interest rate, several sponsors indicated that no construction could begin if interest rates rose without eliminating or reducing the special aspects of design that are of vital importance to older Americans.

Section 8 projects financed under the section 202 direct loan program were not made eligible for assistance under 1981 FAF arrangements. By November 1981, it appeared that if the direct loan interest rate was established using past methods relating it to the Treasury borrowing rate, it would be 11¾ percent in 1982. Because of their concern about the effect of this interest rate on elderly housing production, the Senate and House Committees on Aging sent a letter to Secretary Pierce urging him to exercise his statutory authority to make the financing of section 202 projects feasible by either applying a financing adjustment factor regulation increasing section 8 contract rents *or* lowering the direct loan interest rate below the statutory maximum.

In a subsequent colloquy between Senator Heinz and Senator Garn, chairman of the Committee on Banking, Housing and Urban Affairs, both agreed that raising the interest rate to 11¾ percent would make many section 202 projects infeasible to construct. It was further agreed that HUD should keep the interest rate at 9¼ percent in 1982. HUD promulgated regulations setting the 1982 interest rate at 9¼ percent in early 1982.

In December 1982, HUD indicated that the 1983 interest rate would not be kept at 9¼-percent. At the recommendation of the Special Committee on Aging, legislative language mandating the 9¼-percent rate was included in the continuing resolution that was signed into law on December 21.

Senator Heinz and others introduced legislation reauthorizing the section 202 housing program in April 1982. The bill, S. 2404, provided for the annual construction of 20,000 units of section 202 housing through fiscal year 1985. In addition, the provisions of the bill set in place several aspects of program operations believed essential to the ongoing, successful performance of the program. They included: (1) Limited sponsorship of section 202 projects to private nonprofit corporations; (2) prohibition of the sale of projects to any organization or individual except a nonprofit sponsor who agrees to maintain the low-income character of the project for at least the term of the original loan; (3) setting of the direct loan interest rate at the average Federal borrowing cost or at 9¼ percent, whichever is lower; (4) a requirement that the Secretary of HUD give priority in the selection of projects to those that include the special design features and congregate space necessary to meet the special needs of elderly and handicapped residents; (5) continued flexibility for project sponsors to select contractors either by a competitive or negotiated bidding process; (6) a requirement that the Secretary establish unit cost limitations taking into account the special design features of section 202 projects; and (7) a limitation on the Secretary's authority to prohibit any sponsor from voluntarily providing funds from other sources for amenities.

The 26 organizations of the Ad Hoc Coalition for Housing for the Elderly actively supported S. 2404 and testified before the committee, during its April 23 housing hearing, on various issues addressed by the bill. The comprehensive housing bill, S. 2607, reported to the Senate by the Banking, Housing, and Urban Affairs Committee, authorized 15,000 units of section 202 housing and included several major provisions of S. 2404. The Senate was unable to complete action on the committee's bill prior to the end of the Congress. However, sufficient funding was provided prior to the end of the session for 14,000 units in fiscal year 1983, an increase of 4,000 over the President's request.

As section 8 recipients, many older persons living in section 202 housing were affected by the new regulations requiring tenants to pay up to 30 percent of the household's adjusted income for rent. Other elderly, waiting to obtain a section 202 assisted housing unit were also affected by the new eligibility test limiting eligibility to those with incomes at 50 percent of the median or below. No statistics on the impact of the new regulations are yet available.

3. PUBLIC HOUSING

The low-rent public housing program is the oldest of those Federal programs providing housing for the elderly. It was established by the United States Housing Act of 1937. Over 42 percent of the Nation's more than 1.5 million public housing units are occupied by older Americans. It is a federally financed program which is operated by locally established, nonprofit public housing agencies (PHA's). Each agency usually owns its projects. By law the PHA's can acquire or lease any real property appropriate for low-income housing. They also are authorized to issue notes and bonds to finance the acquisition, construction, and improvement of projects. Federal assistance to the projects is in the form of annual contributions that are used to pay the PHA's debt service. Originally this was the only form of Federal public housing assistance. It was assumed that tenant rents, set at amounts no higher than 25 percent of a tenant's net income, would cover project operating costs for such items as management, maintenance, and utilities. Over the past few years tenant rents have not kept pace with increased operating expenses. As a result, Congress has provided additional assistance to the projects to cover these expenses.

A large percentage of new construction of public housing over the last 10 years has been for the elderly because of reduced management problems and of local opposition to family units. In many communities there is a long waiting list for admission to those projects serving the elderly and such lists can be expected to increase as the demand for elderly rental housing continues in many parts of the Nation.

Since 1971, PHA's have had the authority to use Federal funds for the provision of dining facilities and equipment in public housing projects. No subsidy was provided to cover the cost of meals and other services. To date there has been little development of these "congregate" facilities. In a study on long-term care released by the Department of Health and Human Services in late 1981, a variety of reasons were cited, including the fact that local housing agencies have had little experience in managing the necessary services; there has been little Federal encouragement and support; and assurance of funds to pay for the services on an ongoing basis has not existed. Most services have been provided by local service agencies funded by the Older Americans Act, medicaid, and the title XX Social Services Act.

As with other housing programs, no public housing authorizing legislation was acted on by the Senate and House in 1982. Except for an appropriation for the funding of 2,000 units of Indian housing, no new fiscal year 1983 funds were appropriated for the construction of new public housing units.

Consistent with past trends, the need for operating subsidies for PHA's increased. In 1982, $1.35 billion was provided for fiscal year 1983, an amount $150 million higher than that appropriated for fiscal year 1982.

The new HUD regulations increasing tenant rent contributions and changing the eligibility test to 50 percent of median income were also applied to recipients of public housing assistance.

TABLE 2.—ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING, FISCAL YEAR 1981–83 UNIT RESERVATIONS BASED ON CONGRESSIONAL ACTION

	Fiscal year 1981		Fiscal year 1982	Fiscal year 1983
	Before rescission	After rescission		
Section 8:				
New construction/substantial rehabilitation	85,344	51,500	26,735	0
Section 202	18,800	18,400	17,200	14,000
Existing	132,907	107,100	74,296	67,146
Subtotal—section 8	237,051	177,000	118,231	81,146
Public housing	42,000	30,396	24,000	[1]2,000
Total	279,051	207,396	142,231	83,146

[1] Indian housing units.

Source: U.S. Congress. Senate. Committee on Appropriations.

4. CONGREGATE HOUSING SERVICES

The Congregate Housing Services Act, passed in 1978, authorized HUD to award grants to public housing authorities and section 202 housing sponsors to provide nutritional meals and supportive services to partially impaired elderly and handicapped persons allowing them to remain in their own dwellings and out of expensive institutions. These 3- to 5-year grants require supplemental funding from other community sources to support the delivery of the services. The law prohibits the duplication of existing services and sets up a procedure for coordinating them with congregate housing services through the local area offices on aging. Specifically, congregate housing services projects are required by law to provide at least two meals per day, 7 days a week, at central dining facilities. Homemaker, housekeeping, personal assistance, counseling, transportation, and other necessary supportive services may be offered as needed. Program participants are required to pay a fee for the services they receive based on their ability to pay.

In enacting the congregate housing services legislation, Congress was responding to two pressing problems—the growing number of frail Americans and the skyrocketing costs of health care. At that time overwhelming evidence was presented to the authorizing committee demonstrating that the provision of relatively low-cost meals and other support services in a residential setting could prevent premature, expensive institutionalization in nursing homes as well as unnecessarily long hospital stays. Thus, it was assumed that successful implementation of the congregate housing service program (CHSP) would result in significant savings to the medicare and medicaid programs. Equally important, it was assumed this new program would help protect low-income elderly and handicapped individuals from a loss of independence which, when unnecessary, can be an immeasurable human tragedy.

At the end of 1982, over 63 congregate housing services projects had been funded committing the $20 million appropriated for the program by the Congress in fiscal years 1979 and 1980.

While enough data was not available in 1981 to permit a comprehensive report on the impact and effectiveness of the CHSP, initial operating statistics submitted to HUD did suggest two trends that would show cost savings to the Federal Government over time. One trend relates to individuals who have had a physical or mental crisis and have been able to stay in their own dwellings by virtue of the program's existence. The other trend shows individuals released from an institutional setting and admitted to a CHSP project. In these cases a large percentage of persons originally had been placed unnecessarily in a care facility, such as a nursing home, because of a lack of residential arrangements with supportive services.

The Department has contracted with the Hebrew Rehabilitation Home for the Aged in Cambridge, Mass., for a comprehensive CHSP evaluation. Jointly funded by HUD and the Administration on Aging, the study will examine the process of program development and operations; project performance; and the program's impact on individuals over time. The impact evaluation will analyze the effect of the CHSP on the health status of the participants and the source and pattern of the services they receive. It will concentrate on: (1) The effect of the program on rates of institutionalization, general functioning, and health of participants; (2) the extent to which the CHSP causes or induces people to substitute the services provided by the program for services formerly provided by volunteers, friends, family, or self; and (3) the extent to which the program causes any changes in funding levels for nonmedical services. The evaluation began in September 1980, and will extend through 1984. Periodic information reports will be submitted to HUD and AoA throughout the life of the contract.

The Heinz elderly housing bill, S. 2404 proposed reauthorization of the CHSP at $10 million in fiscal year 1983, $11 million in fiscal year 1984, and $12 million in fiscal year 1985. In the Senate housing bill that was not enacted, S. 2607, a 1-year authorization of $10 million for fiscal year 1983 was included for the program. An appropriation of $3.5 million was provided through the appropriations process for the continued funding of the congregate housing services projects already in existence that were scheduled to expire in 1983. An additional $500,000 was appropriated for new projects in rural areas of the Nation.

B. THE PRESIDENT'S COMMISSION ON HOUSING

On June 16, 1981, President Reagan appointed a 25-member Commission on Housing for the purpose of advising the President and the Secretary of Housing and Urban Development on national housing policy. The Commission was directed to submit its final report to the President and the Secretary by April 30, 1982. The mandate of the Commission was to:

> Analyze the relationship of homeownership to political, social, and economic stability within the Nation; review all existing Federal housing policies and programs; assess

> those factors which contribute to the cost of housing as well as the current housing finance structure and practices in the country; seek to develop housing and mortgage finance options which strengthen the ability of the private sector to maximize opportunities for homeownership and provide adequate shelter for all Americans; and detail program options for basic reform of federally subsidized housing * * *.

The Commission report was submitted to the President on April 29, 1982. Its recommendations were diverse covering a broad range of subjects but focusing on the development of a new system of housing delivery rather than specific budget or program administration issues.

Prior to developing its recommendations, the Commission adopted a set of general principles to serve as a guide in addressing the Nation's housing needs. Those principles are as follows:

> Achieve fiscal responsibility and monetary stability in the economy.
>
> Encourage free and deregulated markets.
>
> Rely on the private sector.
>
> Promote enlightened federation with minimum Government intervention.
>
> Recognize a continuing role of Government to address the housing shelter needs of the poor.
>
> Direct programs toward people, rather than toward structures; and
>
> Allow maximum freedom of housing choice.

A reflection of the above principles, Commission recommendations that would affect the major Federal housing programs now serving the elderly are as follows:

(1) The primary Federal program for helping low-income families to achieve decent housing should be a housing payments (vouchering) program. This program, coupled with housing supply assistance from the community development block grant program, should replace future Federal commitments to construct or substantially rehabilitate additional units under current Federal housing programs (section 8 new construction/substantial rehabilitation, section 202, and public housing programs).

(2) Public housing should be restored to local management and control, passing to public housing authorities and local governments responsibility and choice in the use and disposition of public housing projects.

(3) The frail elderly and handicapped have special housing needs that should be addressed by special programs. A White House task force should be established to develop a policy framework for addressing these housing needs in the context of the social and health needs of this group.

(4) State and local authorities should act to permit homesharing by elderly homeowners, including rental of rooms and construction of accessory apartments.

(5) The Department of Housing and Urban Development, the Federal Home Loan Bank Board, and the Internal Revenue Service

should facilitate and encourage the use of mechanisms to enable older homeowners to convert their home equity into income while remaining in their homes.

C. INNOVATIVE HOUSING ARRANGEMENTS

1. Home Equity Conversion Plans

It is increasingly acknowledged that the homes of older Americans are their most common and most valuable asset. The most recent statistics indicate that of the three out of every four elderly persons who own their own homes, 80 percent do not have a mortgage. Equally as significant, older homeowners are concentrated in the low-income class. For example, 6 out of every 10 elderly single homeowners have incomes of $5,000 or less.

In recent years a great deal of attention has been given to the development of financial arrangements that could give these and other aged homeowners the opportunity to convert part of their equity into cash without having to leave their dwellings. More commonly known as home equity conversion plans (HECP's), the goal of such financial arrangements is to relieve the severe budget constraints that are now a part of daily life for many aged homeowners. Older persons often do not wish to sell their homes to obtain cash, and even when they do, often cannot easily find suitable new housing. HECP's could offer a choice to these elderly persons facing costs of necessity-heavy budgets that have grown proportionately faster then their incomes for items such as property taxes and utilities. They could also provide funds to allow older persons to pay for needed support services, home maintenance, and other needs.

Prior to the development of the concept of home equity conversion, the only source of equity borrowing available to older Americans was through the traditional financial institutions at high rates and short terms. As the HECP concept has developed, a variety of models have emerged in both the private and public sector which are designed to meet a variety of needs. However, there are two distinct types of plans—debt plans and equity plans—that these models are based on. *Debt plans* allow an older homeowner to borrow against home equity with no repayment of principal or interest due until the end of a specified term of years, or until the borrower sells the home or dies. These plans can provide a single lump-sum payout to the borrower, a stream of monthly payouts for a given term or—with the addition of a deferred life annuity—guaranteed monthly payouts for life. They are often referred to as "reverse" mortgages or reverse annuity mortgages (RAM's). Property tax deferral programs, popular in many States, are a form of debt plan in which older homeowners postpone paying their taxes until they sell their homes or die. In State-initiated deferral programs, the State pays the taxes to the local government for the homeowner. These payments accrue with interest as a loan from the State to the homeowner, secured by equity in the home. Upon death or prior sale of the home, the total loan is repaid to the State from the proceeds of the sale or the estate. *Equity plans* involve sale of the home to an investor who immediately leases it back to the seller. Land contract payments to the seller exceed rent payments to the buyer, so the older person receives extra cash each month. In addition, the buyer pays for taxes, insurance, and maintenance. A deferred annuity or other investment purchased with the downpayment can provide income beyond the land contract term. These plans are also referred to as "sale/leasebacks."

The basic theoretical forms of HECP's have been developed for several years. In general, however, workable instruments have yet to become widely available to the public. Private sector HECP's have been sporadic and short-lived. One reason for the lack of substantial interest and development has been the fact that the combination of financial benefits and risks associated with the plans has not been sufficiently attractive to lenders or borrowers. While the volatility in interest rates has made development of plans even more difficult, progress was made. Two pilot projects launched in 1981 in San Francisco and Buffalo, under the auspices of the State of Wisconsin's home equity conversion project, were continued in 1982. The San Francisco Development Fund's reverse annuity mortgage program is a comprehensive system for delivering reverse mortgages and sale/leasebacks to older homeowners. Buffalo's Home Equity Living Plan (HELP), Inc., offers elderly homeowners immediate property rehabilitation as needed, a lifetime maintenance contract, payment of property taxes for life, and a monthly cash payment for life. In exchange the homeowner agrees to relinquish title at death.

At the end of 1981, a new home equity conversion plan model emerged from a private corporation, American Homestead, Inc., which is scheduled to become operational in 1983. The plan has been designed to attract the interest of the private financial market. Under the plan older homeowners would receive monthly checks ranging from $100 to $500 as an income supplement until the homeowners asked to have them stopped or until the owners move, sell their property, or die. When the payments end, the homeowners or their heirs would owe the dollar amount of the monthly checks; deferred interest computed at a fixed rate slightly below what was prevailing in the mortgage market at the time the original payment contract was signed; and a percentage of the increase in the resale value of the house since the date of the original contract. All loans to property owners would be secured by first mortgages against their homes. By "pooling" the mortgages into packages of 1,000 loans apiece American Homestead hopes to cut the financial risks of excess payments to borrowers whose property values don't go up as expected, or who live for longer than the average person in their age bracket. To further reduce risks, the amount of the monthly payment would be tied to the age and sex of the homeowner, the amount of existing equity in the dwelling, and the amount of future appreciation the owner contracts to share. The plan is being studied in detail by the Wisconsin home equity conversion project to determine the adequacy of the plan's consumer safeguards and estimate what the "actual" rate of borrowing would be for older homeowners who participate in the plan (the stated rate of borrowing plus the value of estimated rates of appreciation translated into a rate of borrowing).

Consumer safeguards for those participating in home equity conversion plans was the subject of continuing debate in 1982. Questions regarding the treatment of plan revenue by Federal and State systems of taxation and public benefit programs such as food stamps, supplemental security income, and low-income energy assistance also received considerable attention.

In July 1982, the Senate Special Committee on Aging published a committee information print on home equity conversion. Designed for potential participants in home equity conversion arrangements, the print discussed the various types of plans with examples of how they work and major elements which consumers should look for in such plans to protect themselves and their financial security.

On July 20, 1982, the committee held a hearing on opportunities for home equity conversion for the elderly. The purpose of the hearing was to examine consumer protection issues and existing private and governmental barriers to the national development of home equity conversion arrangements in light of present experiences with varied demonstration programs from around the country. Testimony was received from representatives of the Department of Housing and Urban Development, the Department of Health and Human Services, the American Association of Retired Persons, the Wisconsin Center for Home Equity Conversion, and other expert witnesses.

2. SHARED HOUSING

Many communities in our Nation have a severe shortage of affordable rental housing. Older persons often are hard pressed to discover how to survive in such communities. Shared housing, or shared living as it is sometimes called, is a living arrangement in which two or more unrelated people live together, each having their own private space, but sharing common spaces, such as the living room, kitchen, dining, and laundry facilities. Shared living is primarily for active older persons who have no need for constant medical attention, daily prepared meals, or nursing assistance. By pooling their personal and financial resources and sharing a house or an apartment, these individuals can live independently in their communities. As the cost of adequate housing continues to rise, shared living is emerging as an increasingly attractive and economical option for older people on fixed incomes.

Most shared housing arrangements have been developed within the past decade. There are presently 70 shared housing projects for the elderly throughout the country. In the past, the development of these projects has been a slow process. It has often been initiated by older people and augmented by others of all ages who are interested in developing alternative housing choices for themselves and the elderly. Important ingredients of a prosperous arrangement seem to be a small group size in combination with the flexibility and active participation of the residents. Space, privacy, location, and physical amenities also seem to be critical factors for success as is the project's ability to draw on existing community networks (churches, architects, lawyers, neighbors, etc.).

Although there are some common elements employed in each project there is no one "right" model for shared living. The format varies as the people vary and is planned according to the needs and preferences for whatever the group decides it wants. Sponsors of shared living projects have been as creative in their search for finances as they have been in developing the projects. Development funds have been obtained with bank loans, loans from city governments, business contributions, sponsor contributions, community development block grants, church and community contributions, and private philanthropy. Rent and service funds have been financed from social security payments, supplemental security income (SSI), CETA funds, title XX, food stamps, the Older Americans Act, and church and family donations. Many of the existing projects have experienced major difficulties in obtaining these funds. For instance, SSI payments often have been incorrectly reduced when individuals move into group homes because the value of services provided to residents in the home was determined to be income. Because all residents of a shared housing project were treated as family for purposes of determining eligibility, some have been denied food stamps. There is also a definitional problem being confronted by shared living projects on a local level. Each municipality or community establishes its own definition of "family." Because local zoning boards often view shared projects as boarding homes, the projects are often ineligible for occupancy under local zoning codes.

In January 1981, Boston's shared living project, several national church demonstrations, and the Gray Panthers united to establish a national housing organization to promote shared living. Its office, based in Philadelphia, functions as a center for technical assistance, research, and education. Since its inception, the shared housing project has worked to promote shared housing at the Federal and local levels of government. Federal legislation was drafted to address the benefit disincentives with regard to section 8 assistance. The purpose of the legislation is to insure that elderly persons who live in shared housing are not subject to any undue loss of these benefits as a result of residing in a shared household on the local level. The section 8 provision was included in the comprehensive legislative package that failed to pass the Senate and House prior to adjournment of the 97th Congress.

3. Accessory Apartments and Granny Flats

Often discussed as another form of shared housing, accessory apartments are independent living units with their own kitchen, within single-family homes. Similar to shared living arrangements, local zoning restrictions often make the development and use of these apartments illegal. However, historically, they have been informally accepted within communities as long as members of the extra household are related to the owner or the additional people do not become obtrusive in the community.

The high cost of housing and the growth of small households have led to a great deal of interest in a number of communities in utilizing existing housing more effectively, including the use of accessory apartments. The elderly, and low-income elderly women in particular, have a special interest in such arrangements as an alternative source of income.

Some older suburbs have recently modified local zoning to permit accessory housing. Facilitated by new State legislation, a number of California communities are considering accessory apartment restrictions as part of a general review of zoning modifications.

Another innovative housing arrangement attracting some attention is "granny flats." Originating in Australia, the term refers to self-contained portable living units set up in the backyard of a single family home where the elderly grandmother, or other relative, lives. The concept of granny flats is consistent with other policies that acknowledge that home care of older persons is more cost-effective than heavily subsidized institutional programs.

The first American prototype of the granny flats concept has been built in Lancaster, Pa., where local Amish residents provide models of extended family living.

Chapter 10

ENERGY ASSISTANCE AND WEATHERIZATION

OVERVIEW

The radical changes in world oil markets following the 1973 Arab oil embargo brought equally radical changes in the household budgets of all Americans. The proportion of income required to purchase essential energy supplies rose dramatically, and changes in the cost of this basic commodity brought changes in the cost of many other necessary items. Although these changes had different impacts depending on a household's income and fuel requirements, during the past 9 years the pressure for change in consumption patterns and the erosion of real spending power have been unrelenting. The rising cost of energy has had a particular effect on the elderly and those with low incomes, who consume relatively less energy than other households but pay a larger portion of their disposal income for fuel.

During the past several years, a number of Federal programs have been introduced and implemented to provide energy assistance to the low income and elderly. The most significant of these programs are the low-income energy assistance program and the Department of Energy's weatherization program. Over the years, both programs have undergone repeated modifications in response to both growing need and apparent deficiencies in the programs.

In its 1981 budget request, the administration introduced proposals to redesign energy assistance by replacing the low-income energy assistance program with an energy and emergency assistance block grant, giving States complete flexibility in delivering fuel assistance and other emergency services. The proposed block grant would leave eligibility and payment levels, and the types of assistance, entirely at the discretion of the States. In addition, the administration proposed to repeal the low-income weatherization program and include those activities among the options that local governments could finance through the Department of Housing and Urban Development (HUD) community development block grant or the energy assistance block grant.

In deliberation on the Omnibus Budget Reconciliation Act of 1981, the Congress rejected these proposals and instead decided to authorize the Low Income Home Energy Assistance Act as a separate program, at a level of $1.875 billion in each fiscal year 1982 through 1984. No authorizing legislation was passed for the weath-

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NOTE.—The sources of all statistical information in this chapter, unless otherwise indicated, are derived from the Residential Energy Consumption Survey: Consumption and Expenditures, April 1980 through March 1981. Energy Information Administration, Office of Energy Markets and End Use, Department of Energy, September 1982 Report.

erization program, and as a result, it remained in place funded at a level of $144 million under the 1982 Interior appropriations bill.

In the 1983 budget request, the administration again proposed replacing the low-income energy assistance program with a block grant, and requested no funding for the weatherization program. It also proposed the dismantling of the Department of Energy. Although Congress studied numerous energy assistance proposals, it again rejected the administration's approach, and decided to continue the programs essentially the same as they operated in fiscal year 1982.

During the lame duck session, Congress passed the fiscal year 1983 Interior appropriations bill, which was signed into law (Public Law 97-394) on December 30, 1982. This measure provides $145 million for the DOE's low-income weatherization program. In addition, Congress passed the fiscal year 1983 continuing resolution (Public Law 97-377) which provided for a $100-million increase in the low-income energy assistance program, bringing the annual funding level to $1.975 billion in 1983 for this program.

A. NEED FOR ENERGY ASSISTANCE

The critical question for low-income households are what proportion of the total household budget is being paid for home energy costs and to what extent real incomes have kept up with energy inflation. The rise in energy costs in relation to income has been the impetus behind congressional enactment of the low-income energy assistance program and the low-income weatherization program. Between the years 1972 and 1979, electricity costs rose 84 percent, gas 150 percent, and fuel oil costs rose 258 percent. These figures were well above the overall increase of 74 percent in the Consumer Price Index for the same period.[1] Table 1 illustrates the dramatic increase in the average cost of home heating between 1980 and 1981 by region and fuel source. Although the actual dollar amount increases may vary with different surveys, the overall trend in energy costs is consistent.

The Residential Energy Consumption Survey prepared by the Department of Energy for the period April 1980 through March 1981 indicates that elderly households (60 years and over) heat with the following fuels: Natural gas, 51.1 percent; electricity, 22.5 percent; fuel oil or kerosene, 22.3 percent; and liquid petroleum gas, 4.2 percent.[2]

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[1] U.S. Dept. of Health and Human Services. Social Security Administration. Low-Income Energy Assistance Program by Donald Rigby and Charles Scott. Social Security Bulletin, v. 46, No. 1, January 1983. Washington, p. 11.

[2] U.S. Dept. of Energy. Residential Energy Consumption Survey: Consumption and Expenditures April 1980 through March 1981, p. 33.

TABLE 1.—ESTIMATED AVERAGE COST ON HOME HEATING

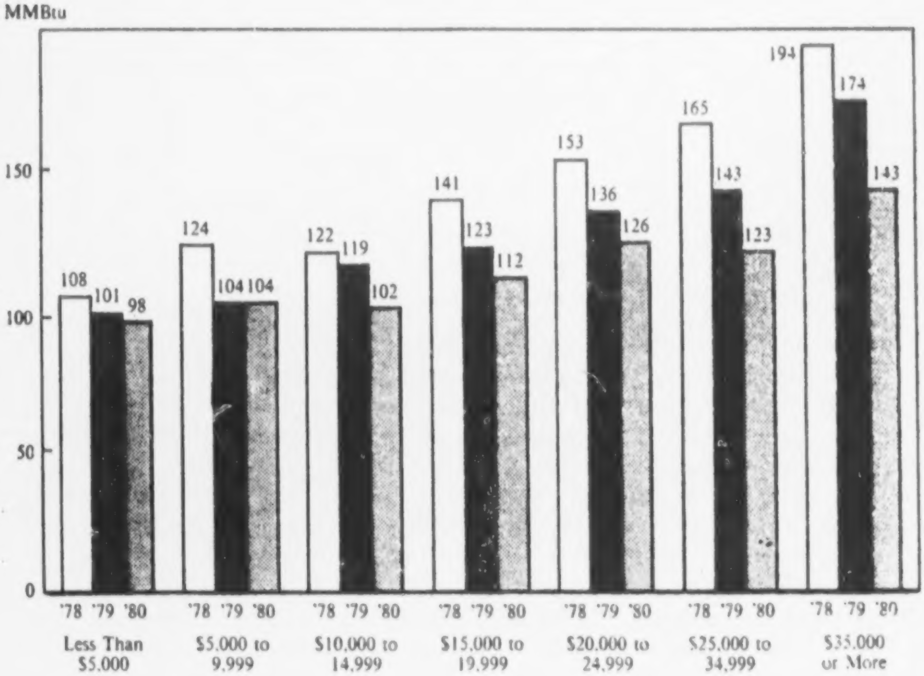
Census region	1980	1981 [1]
Fuel oil/kerosene:		
Northeast	$1,000	$1,580
North Central	1,040	1,309
South	530	1,303
West	730	892
Natural gas:		
Northeast	530	1,026
North Central	560	861
South	300	827
West	350	613
Electricity: [2]		
Northeast	690	997
North Central	730	997
South	350	769
West	470	398

[1] Source: Energy Information Administration, Department of Energy. U.S. Average Residential Energy Expenditure for all Fuels Used in Households, by Main Heating Fuel Type (Dollars per Household).

[2] Figures utilized are for electricity as main heating fuel without air conditioning.

The Department of Energy has estimated that in 1980, as in previous years, energy consumption is higher for households with larger incomes. Chart 1 displays the average consumption of all fuel per household by income class for a 3-year period (dollar amounts are expressed in nominal values). On average, consumption has declined in each income group, with the larger decreases occurring in the higher income groups. Consumption by the lowest income group declined by 8 percent over the period, while it declined by 24 percent for the highest income group. In 1978, the highest income group consumed about 63 percent more energy than the lowest income group. By 1980, this difference had fallen to 34 percent. The Congressional Budget Office estimates that in fiscal year 1981, the poor used 43 percent less home energy than higher income groups. At the same time, the energy used by the poor does them comparatively less good, because their homes and appliances are often less efficient than the U.S. average.

CHART 1.—AVERAGE TOTAL ENERGY CONSUMPTION
BY INCOME CLASS: 1978-80
(Million Btu per household)

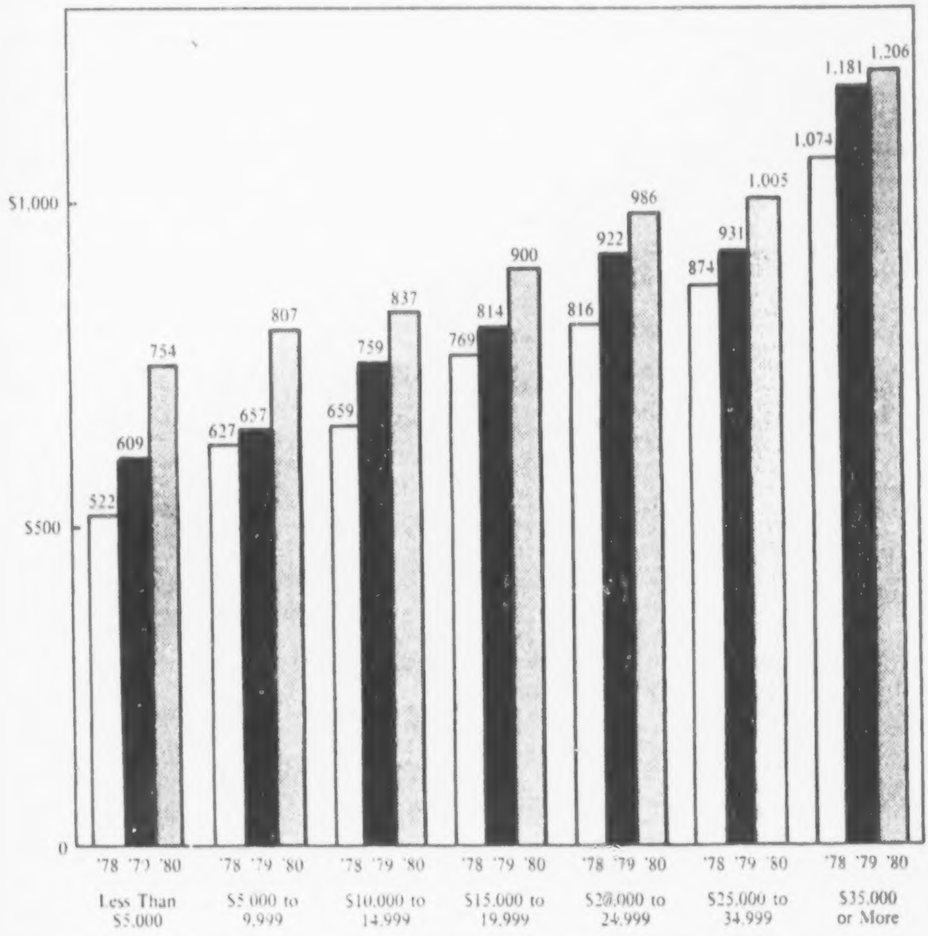


Source: Energy Information Administration, Office of Energy Markets and End Use, Energy End Use Division, Residential and Commercial Branch, 1978, 1979, and 1980 Residential Energy Consumption Surveys. For 1980 data, see Table 5.

In contrast to consumption patterns, expenditures increased much more for the lower income groups than for the higher. Chart 2 provides the average expenditures per household for all energy for the same 3-year period. Expenditures for the lowest income group increased 48 percent (in nominal dollars) while expenditures for the higher income group increased only 17 percent.

CHART 2.—AVERAGE TOTAL ENERGY EXPENDITURE BY INCOME CLASS: 1978-80

(Nominal dollars per household)



Source: Energy Information Administration, Office of Energy Markets and End Use, Energy End Use Division, Residential and Commercial Branch, 1978, 1979, and 1980 Residential Energy Consumption Surveys. For 1980 data, see Table 6

The burden of rising fuel costs is especially severe for low-income households for several reasons. First, they pay a significantly higher proportion of their household budget for home energy, and second, their real incomes have consistently failed to keep pace with energy inflation. Table 2 provides an estimated average annual expenditure on home energy by income class and region as a percentage of annual income. In the coldest parts of the Northeast and North Central States many low-income households spent more than 35 percent of their income on energy in the winter of 1980-81.

TABLE 2.—ESTIMATED AVERAGE ANNUAL HOUSEHOLD EXPENDITURE ON HOME ENERGY, BY INCOME CLASS AND REGION, FISCAL YEAR 1980-81

	Estimated average expenditure on home energy	As percent of income
Estimated household income:		
Less than $5,000	$754	30.2
$5,000 to $9,999	807	10.8
$10,000 to $14,999	837	6.7
$15,000 to $19,999	900	5.1
$20,000 to $24,999	986	4.4
$25,000 to $34,999	1,005	3.3
$35,000 or more	1,206	[2] 3.2
Total poor (100 percent level) [1]	797	15.9
Total poor (125 percent level)	807	13.4
Region:		
Northeast	1,268	7.0
North Central	910	5.0
South	877	5.4
West	604	3.2
Average, all households	917	5.2

[1] In calculating poverty level data, income for a family of two was utilized.

[2] Or less.

Source: Data for this table are derived from the Dept. of Energy's Residential Energy Consumption Survey, April 1980 through March 1981, and the U.S. Dept. of Commerce, Bureau of the Census Current Population Survey, March 1981.

The situation is even worse for the low-income elderly because they are particularly susceptible to hypothermia—the potentially lethal lowering of body temperature—and to heat stroke. The Center for Environmental Physiology in Washington, D.C., has reported that experts on this subject estimate that hypothermia may be the root cause of death for up to 25,000 elderly people each year. The center reports that most of these deaths occur after exposure to cool indoor temperatures rather than extreme cold, and that the situation can worsen many preexisting conditions and diseases in older adults. Although another disease is ultimately listed as the cause of death, the center maintains that many deaths may be causally related to hypothermia. In addition to this problem, experts estimate that as many as 2,000 deaths among older Americans were directly attributed to the heat wave of 1980. To protect themselves against these serious threats to health, the elderly often should be using more energy than they do.

The offsetting effects of indexed benefits from SSI, social security, and other income programs for the elderly poor cannot be precisely measured, but the general data seems to indicate that increases in home energy costs clearly continue to outstrip benefits.

B. ENERGY ASSISTANCE PROGRAMS FOR FISCAL YEAR 1982

Congressional efforts to ease the burden of high energy costs on the elderly have taken two principal forms. First, since 1977, Congress has appropriated money to provide aid for fuel-related emergencies to households at or below 125 percent of the poverty line. The low-income energy assistance program grew from $200 million in "crisis assistance" in 1977, to $1.85 billion in fiscal year 1982, distributed to States according to climate and needy population.

Second, in 1975, Congress enacted the emergency energy services conservation program, designed to provide energy relief to needy households by increasing the energy efficiency of their homes through insulation and repair. This developed into a $180-million weatherization program operated by the Department of Energy. During fiscal year 1982 this program was cut back to $144 million. A weatherized home consumes less energy because it wastes less, thereby keeping down fuel bills and, in turn, reducing demand for energy assistance.

1. The Low-Income Energy Assistance Program (LIEAP)

The precursors of the current low-income energy assistance program were a series of 1-year programs in fiscal years 1977–79 that were administered by the Community Services Administration. Although the names and operating procedures of these programs differed year to year, they all were limited to a $200 million annual appropriation and oriented to crisis intervention. Generally, potential low-income recipients had to demonstrate that they faced an imminent energy-related emergency, such as shutoff of their home heating fuel supply or breakdown of their primary heating source. In such cases, aid could be provided to pay utility bills or provide in-kind benefits, such as space heaters or blankets.

Between the winters of 1979 and 1980, the price of home heating oil doubled. In response, Congress expanded aid sharply. Congress created a three-part energy assistance program at an appropriation level of $1.6 billion: $400 million in CSA for continuation of its crisis intervention programs; $400 million to the Department of Health and Human Services (DHHS) for one-time payments to recipients of supplemental security income (SSI); and $800 million to DHHS for distribution as grants to States to provide supplemental energy allowance programs of States design, subject to some Federal rules.

For fiscal year 1981, Congress included a new Home Energy Assistance Act of 1980 as part of the crude oil windfall profit tax. The act authorized $3.12 billion for LIEAP in fiscal year 1981. During the appropriation process, however, the funding level and the distribution formula were changed. In its final form, $1.85 billion was appropriated, and the distribution to States was based on a complex formula that was heavily weighted toward States with cold climates and large fuel oil consumption.

Although each State designed its own LIEAP program, an extremely detailed plan had to be submitted and approved before a State could receive its funds.

Low-income energy assistance program funds were reauthorized for fiscal year 1982 through fiscal year 1984, in Public Law 97-35, the Omnibus Budget Reconciliation Act of 1981, at $1.875 billion for each fiscal year. Under the program, the Federal Government distributes the funds to the States and the States design and administer the assistance payments.

Three basic types of energy-related aid are permissable under LIEAP. States may make payments to assist households in paying their fuel bills for either heating or cooling. There are virtually no restrictions on the manner in which this assistance is provided (cash payments, vouchers, vender lines of credit, and tax credits are the most common). States must use a "reasonable" amount of their allotment to provide energy-related emergency assistance, such as that provided under the old CSA crisis intervention programs. Finally, States may use up to 15 percent of their allotments for low-cost weatherization. Up to 10 percent of a State's allotment may be transferred from LIEAP to other Federal block grant programs and, conversely, funds may be transferred into LIEAP from other block grants.

(A) EFFECTIVENESS OF SERVICES TO ELDERLY: 1981-82

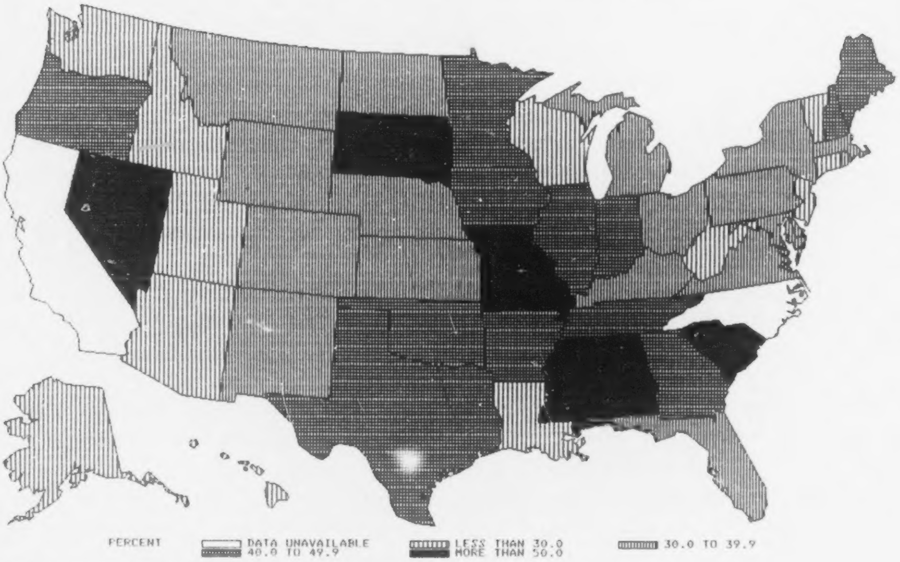
The low-income energy assistance program requires that elderly and handicapped citizens be given priority in receiving assistance. This provision was intended to assure that elderly and poor households are aware that help is available, thus avoiding unnecessary shutoff of utility services. Chart 3 indicates the percentage of applicant households with elderly members, which provides a picture of how successful State outreach efforts have been in identifying and serving the elderly.

Although States have come up with a variety of means for implementing the targeting requirement, several aging organizations have suggested that Older Americans Act programs, especially senior centers, be utilized as an information/referral and outreach base. Discussions with area agency on aging and senior center staff indicates that increased effort has been made in recent years to identify eligible elderly persons for LIEAP assistance.

The results of a telephone survey of the States by the Department of Health and Human Services show that through the end of

CHART 3

PERCENT OF ELDERLY HOUSEHOLDS RECEIVING HEATING ASSISTANCE



SOURCE: DEPARTMENT OF HEALTH AND HUMAN RESOURCES. LOW INCOME ENERGY ASSISTANCE PROGRAMS. REPORT TO CONGRESS FOR FISCAL YEAR 1981. AUGUST 31, 1982.

fiscal year 1981, 48 States and the District of Columbia reported 1,529,783 households with elderly members had been served. This accounted for 39 percent of all target group households participating in the program. It is important to note that the 39-percent figure represents only households with elderly members that qualify on an income basis. Many States make automatic payments to SSI, AFDC, and food stamp households with elderly members, and these elderly participants are not reflected in this total. Thus, the actual percentage of elderly served is probably higher than 39 percent.

(B) LIEAP FUNDING FOR FISCAL YEAR 1982

The continuing resolution (Public Law 97-92) provided funds for LIEAP in the amount of $1.752 billion for fiscal year 1982. This figure was $123 million below the fiscal year 1982 authorization of $1,875 billion. On February 10, 1982, both Houses of Congress voted an urgent supplemental appropriation to the Department of Health and Human Services to increase the funds available for LIEAP to its authorization ceiling of $1.875 billion. The supplemental appropriation was passed as an amendment to H.J. Resolution 389, an urgent supplemental appropriations measure for the Department of Agriculture.

The principal reasons given in support of the supplemental appropriation were: (1) The extreme severity of the winter, (2) the high national unemployment rate, (3) the continued increases in energy prices, and (4) the results of a survey done by the National Consumer Law Center indicating that a number of States had used up their allotted LIEAP funds, or were in imminent danger of doing so.

In the fiscal year 1983 budget, the Reagan administration proposes to consolidate into one program the existing low-income energy assistance program and the emergency assistance grant program under title IV of the Social Security Act. For fiscal year 1983, and each year thereafter, $1.3 billion was requested for this purpose. The request represents more than a 30-percent reduction in total funding for these two programs. Like the food stamp program, the low-income energy assistance program is included in the President's New Federalism plan and would eventually become a State responsibility.

In September, the House Appropriations Committee reported its fiscal year 1983 spending bill, H.R. 7205, which included $1.875 billion for the LIEAP. Because H.R. 7205 did not complete its way through the legislative process, the program was funded by a continuing resolution. During Senate debate on the continuing resolution, a Danforth amendment to increase the appropriation by $200 million for LIEAP was agreed to. However, subsequent action during Senate-House conference discussion, limited the increase to $100 million. The LIEAP is, therefore, funded by a continuing resolution (Public Law 97-377) through September 30, 1983, at an annual level of $1.975 billion.

2. The DOE Weatherization Assistance Program

The Department of Energy weatherization program is authorized by title IV, part A, of the Energy Conservation and Production Act of 1976, as amended in 1978 and 1980. Persons below 125 percent of poverty are eligible for assistance, as in the LIEAP program, priority is given to the elderly and handicapped. Weatherization assistance is designed to help those households that simply lack the cash or credit with which to respond to the current incentives for conservation. The benefits of the program are threefold. First, improving the energy efficiency of a home provides greater comfort with less consumption. Second, weatherization improvements are permanent; energy savings accrue each year on a one-time investment. Third, reducing consumption reduces fuel bills for those low-income households, thereby lessening the demand for LIEAP funds. The program has been administered through State energy offices, State economic opportunity offices, and locally through community action agencies (CAA's) and others. There has been a "preference" but not a mandated priority for CAA's, which remain the principal delivery system.

The weatherization assistance program provides for the installation of insulation, storm windows and doors, and other energy efficiency improvements up to $1,000 per unit. Labor is to be provided by other sources, such as State and local resources. However, a waiver can be granted if no other labor is available, with the total cost limited to $1,600.

DOE reports 155,028 units were weatherized in calendar year 1982, bringing the program's total production to 905,739 homes. Although specific statistics on the elderly were not provided by DOE, it has reported that most of the dwellings that have been weatherized were occupied by the elderly.

In the past, the program has been criticized by the Congress and the General Accounting Office for delays, poor performance, and management problems. One of the key obstacles to program success was the requirement that weatherization funds be used primarily for materials, which left inadequate funds for labor and program administration. With the phaseout of CETA this problem will be more severe.

Another obstacle is the use of public manpower, with weatherization programs providing materials, because there is often a shortage of local manpower and there is little incentive for trained persons to work on these short-term projects.

(A) PROBLEMS IN WEATHERIZATION PROGRAM

A few fundamental problems persisted despite the improvements through 1981:

—Problems in upgrading multiunit rental housing, due to both difficulty in obtaining landlord agreements and identifying the most effective weatherization measures.

—No formal strategy for concentrating on homes with largest energy-saving potential or greatest need.

—Inflexibility in the list of approved measures.

—Inadequate resources. The National Bureau of Standards has identified 10 million housing units occupied by eligible households and in need of weatherization. At the current average cost of $1,000 per unit and fiscal year 1981 funding levels, the program would require over 40 years.

—Lack of coordination with LIEAP programs.

In general, despite delays in funding, the weatherization program has maintained its productivity. The percentage of elderly participants has risen steadily. In the fall of 1981, the General Accounting Office presented DOE with several of the above criticisms, and the Department has taken steps to alleviate them. A recent study by the Consumer Energy Council of America found the weatherization effort to be particularly successful in three critical areas.

First, in terms of energy savings, an average investment of $968 reduced energy consumption 26 percent, savings almost as good as those achieved in pure research conditions. Second, in economic terms, low-income weatherization is more labor intensive than any fuel production option, creating more jobs per dollar invested. Finally, as a social benefit, weatherization results in savings to low-income households of up to 27 percent in their fuel bills; this amounts to 4 percent of their average annual income. This benefit will increase as home fuel prices continue to increase.

(B) WEATHERIZATION FUNDING FOR FISCAL YEAR 1982

For fiscal year 1981, the weatherization program was funded at a level of $189 million. For fiscal year 1982, the Reagan administration requested no funds for weatherization. Instead it proposed that weatherization would have been included among the options that local governments could undertake under the Housing and Urban Development's community development block grant. Congress eventually rejected this proposal, and continued the program through fiscal year 1982, under the Interior appropriations bill at a level of $144 million. This amount represented roughly a 20-percent cut from the fiscal year 1981 funding level.

In its 1983 budget request, the administration again requested no funding for the Federal weatherization program. The administration proposed to eliminate categorical funding altogether for the program, along with the dismantlement of the Department of Energy. Congress again rejected this proposal. Weatherization programs are currently funded under the Interior appropriations of 1983 (Public Law 97-394) at a level of $145 million.

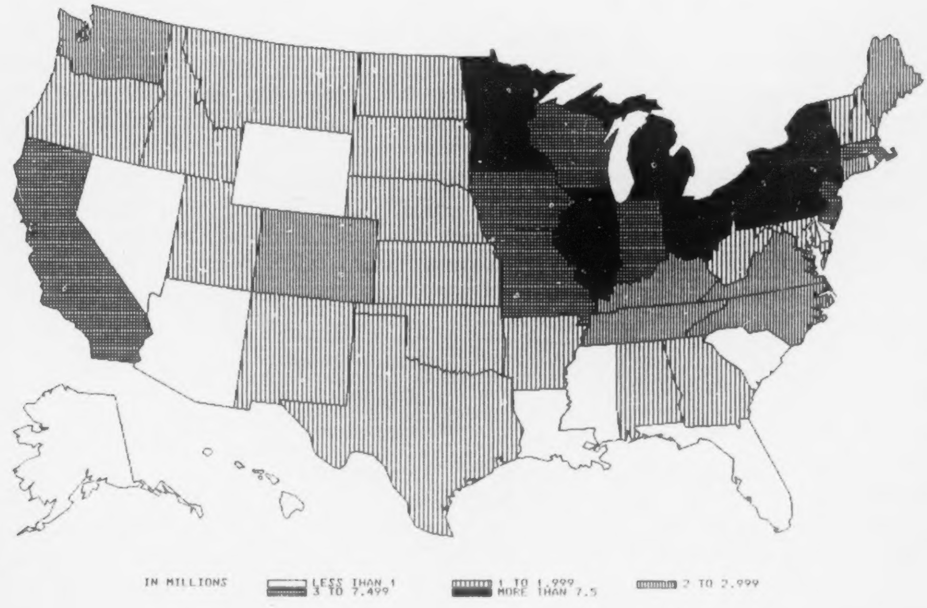
In addition to continuing funding for the program, Congress also blocked attempts by the Department of Energy to limit per unit expenditures to a ceiling of $500. Previous law set the unit expenditures at $1,000 per dwelling unit for materials. Provisions in the Interior Appropriations Act of 1983 stated:

> * * * funds for low-income weatherization activities appropriated under the act shall be expended according to the regulations pertaining to the maximum allowable expenditures per dwelling unit which were in effect of October 1, 1982 * * *

The $1,000 per unit maximum will therefore remain in effect throughout the 1983 fiscal year.

CHART 4

1982 WEATHERIZATION FUNDING



SOURCE: DEPARTMENT OF ENERGY

C. THE ADMINISTRATION'S ENERGY PROPOSALS

In the spring of 1981, the Reagan administration introduced legislative proposals to redesign energy assistance. In place of LIEAP, the administration proposed an energy and emergency block grant, giving States "complete flexibility in delivery of fuel assistance and other emergency services to meet citizen needs." The block grant would leave eligibility, levels of payment, and types of assistance provided entirely at State discretion, so long as the money was spent on energy. The low-income weatherization program would be repealed and those activities included among the options that local governments could pursue under the HUD community development block grant. The energy and emergency block grant was to be funded at $1.4 billion; no money was set aside solely for weatherization.

In February 1982, the administration again proposed changes in the energy programs for fiscal year 1983. The President proposed consolidation of LIEAP and the emergency assistance program at a reduced funding level. In addition, the proposal would reestablish the targeted nature of the program on heating costs in the winter months by adjusting the grant formula to target funds to States most in need. The proposal would have also lessened reporting requirements by States that receive LIEAP funds. In a related proposal, the President also recommended termination of the Department of Energy's low-income weatherization program. In justifying its termination of the program, the administration cited the fact that weatherization was an allowable service under the LIEAP program.

The administration favored the block grant approach in a variety of social service programs, reasoning that consolidation reduces the complexity and fragmentation of the current narrowly targeted categorical approach; with fewer Federal restrictions, States could formulate public policy that more accurately serves specific local needs.

The administration justified lowered funding levels in two ways. First, less Federal involvement reduces Federal administrative costs. Second, the reduction in program funding is deemed an essential part of the administration's economic recovery program, which in turn will benefit the elderly (and all others) by providing a sound economy for the Nation.

D. LEGISLATION IN THE 97TH CONGRESS

1. LIEAP

Various drafts of legislation to continue these programs through fiscal year 1982, attempted to address both problems with the fiscal year 1981 programs and the new administration's emphasis on a reduced Federal role. The first bill on energy assistance was a modified version of the administration's suggestions, introduced by Senator Jeremiah Denton (S. 1089). $1.78 billion would be made available to States for low-income households in need of energy assistance. All determinations of eligible population and form of aid to be offered would be left up to States.

Senator Lowell Weicker offered a bill (S. 1165) to reauthorize the fiscal year 1981 low-income energy assistance program with few substantive changes, and funded at $2.5 billion. This bill excluded some of the program's problem areas, such as building operators' payments and shutoff moritoria, but it retained Federal power to disapprove State plans.

Based on the Aging Committee's findings at the "Energy and the Aged" hearing, Senator John Heinz introduced an energy assistance block grant (S. 1189), which targeted assistance to the elderly and handicapped, gave priority to households with the highest fuel costs in relation to income, and assured coordination with weatherization. States would be accountable for how their funds were spent, but in a simplified format. As Senator Heinz stated:

> We are convinced that these provisions will produce a more effective system for mitigating the impact of high energy costs on the poor because they assure a more careful targeting of the reduced funding levels available under our stringent budget limitations.

The legislation that was finally enacted into law as part of the Omnibus Reconciliation Act of 1981 was known as the Low-Income Home Energy Assistance Act. The act authorized up to $1.875 billion in each of the next 3 years (fiscal years 1982–84)—Congress finally approved an appropriation of $1.975 billion for fiscal year 1983. Where consistent with efficient administration of the program, benefits are targeted to those in greatest need of energy assistance: The elderly and the handicapped; those having the highest energy costs in relation to income; and those having incomes below 150 percent of poverty or 60 percent of a State's median income. The new legislation provides additional economic security to eligible households by specifying that energy assistance payments cannot be counted as income for other Federal programs. Outreach programs, especially for the elderly and the handicapped, are required, as well as crisis assistance programs.

The law permits up to 15 percent of the block grant to be used for financing weatherization services. It mandates coordination between energy assistance payments and weatherization and it gives priority to agencies experienced in service delivery. Program audits by the Secretary of HHS are mandated.

On the other hand, State Governors are given substantial flexibility in designing and implementing programs. States will receive funding after submitting plans developed with full public participation. Funding can only be withheld if subsequent investigation reveals violations of the act. Governors may transfer up to 10 percent of the energy block grant to other social service programs, including those mandated under the social services block grant.

2. Weatherization

No reauthorizing legislation was passed for the weatherization program. Three proposals were submitted. Senator William Cohen proposed an ambitious, 3-year program to weatherize 2.65 million low-income homes, funded at $650 million in fiscal year 1982, $1.54 billion in fiscal year 1983, and $2.2 billion in fiscal year 1984. States would have broad discretion to provide locally suitable programs. Senator Weicker introduced a $400-million consolidation of existing low income, State and local, and school and hospital weatherization activities into a single energy conservation grant to States (S. 1166). Priority would be mandated for the elderly and handicapped, and 65 percent of funds would have to be spent on weatherization.

In response to the administration's recommendation that S. 1166 be replaced with a less restrictive block grant, Senator James McClure introduced a bill (S. 1544) that would repeal and replace all existing categorical conservation grant programs and limit total funding to $200 million per year. States would have no restrictions in regard to what programs need to be funded.

While these bills lapsed with the end of the 97th Congress, the DOE weatherization program remains in place, funded at a level of $145 million.

Part III

EMPLOYMENT

OVERVIEW

During 1982, the Congress became more interested than ever before in the need to provide employment opportunities for older workers. The major factors contributing to this heightened interest in employment were:

—An increasing awareness in our society that older Americans are skilled, reliable, and productive workers, and are a great resource to the Nation.

—The interest of older people themselves in a meaningful role in the social and productive life of our communities and our country.

—The financial problems facing social security and the realization that continuation of the present trend toward early retirement will seriously endanger the system's ability to meet benefit payments in the decades ahead.

—The impact of inflation on retirement income and savings which is making it increasingly difficult for many retired people to maintain their standard of living without some continued earnings from employment.

—The vast improvements in the health of older people, longer lifespan, and the recognition that work is beneficial to physical and mental health.

Today, there are 27 million persons in the United States who are 65 or older. This figure is expected to increase to 36 million by the year 2000, and to 65 million by 2030.

These dramatic population shifts carry economic and social implications for the individual, and require new policy directions at the Federal level.

There are various definitions for the "older worker." The Bureau of Labor Statistics (BLS) defines older workers in terms of those 55 and over. The Age Discrimination in Employment Act implicitly defines older workers as those age 40 and over; some demographers use 45 years and over. Thirty percent of the present U.S. work force is over 45.

During the 1980's, skilled labor will be in increasing short supply as the relative number of younger workers entering the work force diminishes. This fact will challenge the American economy to find a way to tap the pool of older workers and to find ways to restructure working conditions and hours in order to retain and attract older workers who wish to remain productive.

The importance of earnings to the economic well-being of older persons is demonstrated by the fact that people 65 and older with employment earnings and no social security or other pension have a higher median income than any other subgroup. In 1979, the median income of couples 65 and older receiving employment earnings was $16,533, compared with $7,870 for couples with no earnings.[1]

Despite the expressed desire of older people for more flexible work opportunities and the importance of earnings from employment to an adequate retirement income, the trend toward early retirement among older male workers is now a well-established fact. One-third of all social security beneficiaries currently retire at age 62. Since the inception of early retirement, the number and percentage of persons of both sexes retiring early and receiving actuarially reduced benefits have steadily increased. In 1968, 48 percent of all new social security payment awards to men were to claimants under 65, compared to 61 percent in 1981. In 1968, 65 percent of all new awards to women were to claimants under 65, compared with 70 percent in 1981.

Should the trend toward earlier retirement continue, it will have a serious impact on the social security system in the decades ahead. A deficit is expected to occur in social security after the turn of the century primarily as a result of the retirement of the post-World War II "baby-boom" generation. No one can say for certain that the ratio of retirees to contributing workers will grow precisely as now forecast, but the basic trend to smaller families means proportionately fewer workers in the future.

It should be noted that the Nation will need the productive contributions of older workers. Our standard of living is the product of the number of people in the work force times what the economists call "productivity" or "output per man-hour," divided by our population.

Accordingly, the population of the United States is expected to increase 15 million this decade and 10 million in the 1990's. Therefore, the only way we can maintain or increase our standard of living, without unprecedented increases in productivity, is to continue to increase the size of our work force. The largest single group of people in our work force, comprising about 70 percent of those with jobs, are those 44 years of age or younger.

The striking fact is that by the end of this decade, that group will stop growing and actually start declining in numbers. Therefore, the Nation will continue to grow and prosper only if able-bodied, healthy Americans who today are in their forties, fifties, or sixties, have the opportunity and incentive to work.

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[1] U.S. Dept. of Commerce. Bureau of the Census.

Chapter 11

THE OLDER WORKER: PROFILES AND OPTIONS

A. OLDER WORKERS IN THE U.S. LABOR FORCE: A PROFILE

1. The Older Worker Labor Force—November 1982

There are a total of 3,011,000 workers age 65 and over in the labor force—1,838,000 of these are men and 1,147,000 are women. There are 12,168,000 workers between the ages of 55 and 64 in the labor force—7,234,000 men and 4,935,000 women. These older workers make up 13.7 percent of the U.S. labor force. Thirty percent of the 106.8 million people employed in the United States are over 45 years old.

2. Labor Force Participation Rates for Older Workers [1]

Labor force participation rates for men aged 65 and over have dropped from 34 percent in 1960 to 17.6 percent in November 1982. For men aged 55 to 64, the rate has dropped from 87 percent in 1960 to 70.7 percent in November 1982.

The participation rate for women age 65 and over remains low. In 1960, slightly over 10 percent of this group was in the labor force. In November 1982, that rate was 8.1 percent. There has been a slight increase in labor force activity for women aged 55 to 64. In 1960, the rate was 37 percent. That has gradually risen to 42.1 percent in November 1982. The following table presents a labor force profile of older workers as of November 1982.

TABLE 1.—LABOR FORCE STATISTICS ON OLDER WORKERS BY AGE AND SEX, NOVEMBER 1982

[In thousands]

	55 to 64 years old			65 or more years old		
	Total	Male	Female	Total	Male	Female
Seasonally adjusted:						
Civilian labor force	12,168	7,234	4,935	3,011	1,838	1,174
Labor force participation rate (percent)	55.4	70.7	42.1	11.8	17.6	7.7
Number unemployed	724	470	254	142	97	46
Unemployment rate (percent)	6.0	6.5	5.1	4.7	5.3	3.9
Number employed	11,444	6,763	4,681	2,869	1,741	1,128
Not seasonally adjusted:						
Number employed	11,481	6,777	4,704	2,920	1,767	1,153
Employed part time:						
For economic reasons	652	339	312	181	100	82
As a matter of choice	1,445	345	1,099	1,392	754	638

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[1] The U.S. labor force includes workers who are employed and actively seeking employment. The participation rate is the percentage of individuals in a given group (e.g., age group) who are in the labor force.

TABLE 1.—LABOR FORCE STATISTICS ON OLDER WORKERS BY AGE AND SEX, NOVEMBER 1982—Continued

[In thousands]

	55 to 64 years old			65 or more years old		
	Total	Male	Female	Total	Male	Female
Employed full time	9,385	6,093	3,292	1,347	913	4,333
Number unemployed	670	397	273	131	87	44
Duration of unemployment:						
Less than 5 weeks	204	123	80	59	38	21
5 to 14 weeks	158	87	71	21	10	11
15 to 26 weeks	143	87	56	25	23	2
27 or more weeks	166	99	66	26	16	10
Average (mean) duration (in weeks)	20.9	21.6	19.9	15.6	16.9	13.1
Median duration (in weeks)	12.9	13.0	12.8	7.4	8.1	7.1

Source: U.S. Bureau of Labor Statistics, Current Population Survey.

3. INDUSTRIAL TRENDS OF OLDER WORKERS

The U.S. economy has been shifting from agriculture and heavy industry to service and light industries. The shift from physically demanding or hazardous jobs to those in which skills and knowledge are the important requirements will increase the potential for older workers to remain in the labor force longer.[2]

According to employment projections, many working elderly today hold jobs in industries that can expect the greatest employment increases (see table 2). Of the projected 1981-90 increase in employment of 17 million workers, over 75 percent is expected to occur in the two largest industries—wholesale and retail trade and services. These two industries currently employ 60 percent of all workers age 65 and older.

TABLE 2.—EMPLOYMENT BY INDUSTRY, CALENDAR YEARS 1981 AND 1990

Industry	1981		1990, all ages [1]	Projected change in employment, 1981-90	Average annual percent change in employment
	65+	All ages			
All Industries (in thousands of persons)	3,119	107,348	124,186	16,838	1.6
Distribution (in percent)	100.0	100.0	100.0		
Agriculture	9.2	3.0	2.0	−717	−2.8
Mining	0.4	1.0	0.8	−70	−0.7
Construction	3.8	6.4	6.3	975	1.5
Manufacturing—durables	6.1	13.4	12.4	1,019	0.8
Manufacturing—nondurables	5.6	8.8	7.4	−242	−0.3
Transportation	3.2	6.3	6.0	630	1.0
Trade—wholesale and retail	23.6	20.5	22.7	6,194	2.8
Finance, insurance, and real estate	6.1	5.9	5.9	1,010	1.6
Services	37.8	29.5	31.3	7,156	2.3
Public administration	4.2	5.2	5.2	883	1.7

[1] Employment levels are averages of BLS low and high-I employment forecasts, which correspond to annual increases in employment from 1979 through 1990 of 1.4 and 2.1 percent, respectively. Employment in the ser[illegible] industry includes BLS service and private household categories; employment in public administration includes only those civilian government wo[illegible]se employment is not categorized in other industries in the Current Population Survey.

Sources: CBO tabulations based on U.S. Dept. of Commerce, Bureau of the Census. Current Population Survey, March 1981; and Valerie A. Personick. The Outlook for Industry Output and Employment Through 1990. Bureau of Labor Statistics (BLS). Monthly Labor Review, v. 104, August 1981.

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[2] Personick, V. The Outlook for Industry Output and Employment Through 1990. Monthly Labor Review, pp. 28-55, August 1981.

Over 70 percent of the projected overall increase in employment also is expected to occur in three occupations in which many elderly currently work (see table 3). These occupations—service, professional-technical, and clerical—are the three largest employers of the elderly today.

TABLE 3.—EMPLOYMENT BY OCCUPATION, CALENDAR YEARS 1981 AND 1990

Occupation	1981		1990, all ages [1]	Projected change in employment 1981–90	Average annual percent change in employment
	65+	All ages			
All occupations (in thousands of persons)	3,119	107,348	123,775	16,403	1.6
Distribution (in percent)	100.0	100.0	100.0		
Professional-technical	13.3	15.7	16.6	3,777	2.3
Managers-administrators	13.2	11.2	8.8	−1,173	−1.1
Sales	10.3	6.2	6.7	1,652	2.5
Clerical	14.1	18.4	18.6	3,271	1.7
Craftsmen	7.3	12.8	12.1	1,209	0.9
Operatives	8.9	14.4	13.7	1,570	1.1
Nonfarm laborers	3.9	4.7	5.8	2,182	4.1
Private household	4.1	1.2	0.8	−325	−3.1
Service	16.3	13.0	15.0	4,554	3.2
Farmworker	8.6	2.4	1.9	−314	−1.4

[1] Employment levels are averages of BLS low and high-I employment forecasts.

Sources: CBO tabulations based on U.S. Department of Commerce, Bureau of the Census. Current Population Survey, March 1981; and Max L. Carey. Occupational Employment Growth Through 1990. Bureau of Labor Statistics (BLS). Monthly Labor Review, v. 104, August 1981.

Those industries and occupations employing the largest numbers of elderly in 1981 are also the same as those that had the largest absolute growth in employment during the previous decade. The service and trade industries together accounted for over 50 percent of industry employment growth; and the professional-technical, manager-administrator, clerical, and service occupations represented 75 percent of occupational employment growth.

4. THE EARLY RETIREMENT TREND

Age 65 may be the stated norm for retirement, but it is becoming the exception, in fact. Most older workers are claiming retirement benefits at age 62. A rapid and substantial decline in labor force participation has taken place among men since 1960, from 87 to 73 percent for men aged 55 to 64, and from 96 to 92 percent for men aged 45 to 54. The trend was reversed for women, with participation rates rising from 37 to 42 percent for women aged 55 to 64, and from 50 to 58 percent for women aged 45 to 54.

5. THE GROWING NUMBER OF NONEMPLOYED OLDER PERSONS

Official statistics do not include labor force "dropouts." Millions of older men and women have withdrawn from the labor force unwillingly because they simply could not find jobs and eventually give up looking for them. Once unemployed, the older worker runs the greatest risk of being without work for long periods of time.

The critical period in the worklives of adults occurs during their late forties and early fifties. As individuals move into these categories, several trends become obvious. Joblessness increases, duration of unemployment rises sharply, and labor force participation declines.

On October 1, 1982, Representative Pepper, chairman of the House Select Committee on Aging, held a hearing on the unemployment crises facing older persons. At the hearing, a panel of unemployed older persons described how they have been hurt economically, medically, and psychologically by unemployment. The witnesses included jobless white-collar and blue-collar workers in their fifties and sixties. Additionally, a panel of experts testified on the effects of unemployment on older people.

The hearing coincided with release by the Government, on October 8, of its monthly unemployment data, and a report prepared by the staff of the House Select Committee on Aging which described how unemployment hits older persons harder than others.

The report found that:

—Unemployment among older Americans, those 55 and older, jumped 24 percent from January to October—far more than the 16-percent joblessness increase for all age groups.

—Unemployment among older Americans is now the highest since the Government began measuring joblessness after World War II. More than 770,000 Americans, 55 and over, are out of work—1.1 million if one adds to the "officially" unemployed those so-called discouraged older workers whom the Government no longer counts as unemployed because they've stopped looking for work.

Moreover, older workers are more harshly affected by unemployment. As the report found:

> *The older the worker, the longer he or she is out of work:* People 55 and over are out of work on the average nearly 20 weeks before being reemployed. That is 23 percent longer than the 15.5 weeks between jobs, on the average, for all unemployed Americans.
>
> (While the youngest workers have the highest unemployment rates, they are out of work the briefest periods of time—an average 14 weeks for those 20 to 24, 10 weeks for those 16 to 19.)
>
> *The older the worker, the bigger a pay cut he or she must take to work again:* Each year of age over 25 cuts an average $50 annually from a returning worker's paycheck. The person going back to work at age 25 typically returns at his or her last wage. But at age 35, a returning worker typically gets $500 a year less (10 times $50 per year) than he or she got when last employed. And at age 55, the returnee typically will be paid $1,500 a year less than he or she got earlier.
>
> *The older the worker, the more prone he or she is to becoming demoralized and dropping out of the job search:* Those 60-plus are three times as likely as all other adults (over 25) to get discouraged and give up searching for work.

There are now about 334,000 discouraged workers 55 and older—people the Government doesn't count as unemployed because they've stopped looking for work.

These frustrated older unemployed tend to need more medical care, adding to their personal financial strain. And some turn to the Government for medicaid or medicare assistance—or go on social security—adding to the costs of Government. Moreover, about 400,000 person-years of productivity are being lost to the Nation annually as a result of the unemployment of older Americans, the report says.

Reducing unemployment generally would help the aging, along with other jobless workers. But because of the special problems of older Americans, it is critically important to expand job-retraining, pension portability (so the unemployed can carry pension rights with them to wherever jobs are available) and efforts to combat age discrimination, the report says.

ECONOMIC AND BUDGETARY IMPLICATIONS

A growing number of older persons with continued low employment could bring about reduced incomes and increased Federal spending for retirement support.

According to a study by Data Resources, Inc. (DRI), a continued decline in the employment of older persons would worsen overall economic performance by lowering personal incomes and national output and increasing inflation; both employment and unemployment were projected to be lower as a result of the smaller labor force.[3] Reduced employment by older persons was projected to add to other anticipated sources of decline in future labor force growth; by itself, it would lower the annual rate of economic growth by an average of 0.2 percentage points. The resulting lower level of production was projected to increase inflation by 0.2 percentage points annually. Income losses were expected to be felt not only by those older persons who lessened their employment, but also by others whose employment was reduced because of lower overall economic activity. Projected unemployment was lower, although the estimated number of persons employed declined as well.

6. PART-TIME EMPLOYMENT AND OLDER WORKERS

Part-time work is defined by the Department of Labor as ranging between 1 and 34 hours per week. In 1976, 710,000 male workers and 554,000 females age 65 and over worked part time. By 1981, the number of men rose to 779,000—an increase of 9.7 percent—and for women to 613,000—an increase of 10.6 percent. (These data are not seasonally adjusted.)

According to a 1981 Harris survey, older workers, especially those age 65 and over, desire and seek part-time work. Interviews with older persons revealed signs of a constant, perhaps increasing, emphasis on their wanting to remain active in society, primarily as paid employees. This emphasis is reflected by the increase since 1974 in the proportion of retirees who did not look forward to retiring: 37 percent in 1974 compared to 46 percent in 1981.

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[3] Olson, Lawrence, and others. The Elderly and the Future Economy. Data Resources, Inc., for the Corporation for Older Americans. Washington, D.C., January 1981.

A continuous theme of the survey was the pronounced preference for part-time work after retirement. Seventy-eight percent of the employed persons responding would like to continue part-time jobs. The survey also found that current income, or how these retirees rate the adequacy of their income clearly influences the attitude of today's retirement. Of the retirees who said their "incomes allowed them to have enough to get along," 39 percent said they did not look forward to retiring. When the financially strapped retirees were questioned, 55 percent reported they did not look forward to retiring.

Three-fourths of the 55 and older work force, and not just the lower income older workers, would prefer some kind of part-time paid work. High income older workers—no less than low-income employees—showed little interest in total retirement. The preference, therefore, was not simply a matter of economic necessity, it also reflects an insistence on remaining useful and active. However, governmentally mandated costs (social security, unemployment insurance, workers compensation) seem to have a negligible effect on firms' demands for part-time compared to full-time workers.

B. THE FUTURE IMPORTANCE OF WORK AS A SOURCE OF RETIREMENT INCOME

1. The Desire of Older People for Work

Surveys consistently show that there is a strong interest among older people in continuing some form of work after retirement. A Harris poll released on November 18, 1981, found:

—Among all those now working in the key preretirement age between 55 and 64, a majority of 79 percent are opposed to stopping work completely when they retire.
—73 percent favored greater availability of part-time work.
—66 percent favored job-sharing opportunities.
—68 percent favored a job involving a day or two a week to work at home.
—90 percent of all ages surveyed felt that nobody should be forced to retire because of age.

As mentioned earlier, in addition to the renewed interest among older people themselves, there are cogent reasons supporting development of Federal policies that encourage continued employment. With a shrinking supply of younger workers during the decade ahead, the retention of productive older workers will be vital to our economic health. The U.S. economy will suffer if highly skilled older workers, especially in critical occupations, continue to leave the labor force in large numbers.

2. Performance Capabilities of Older Workers

There is a belief that, with increasing age, workers become less capable of performing physical and mental tasks and consequently are less able to meet the demands of their jobs. This view often leads organizational leaders to devise strategies for encouraging older workers to retire as a policy of "weeding out dead wood." However, this assumed link between physical characteristics, age, and declining productivity is not borne out by the facts. Chronological age by itself cannot be used as an accurate indicator of either the health status or the physical capacity of older workers.

The National Policy Center on Employment and Retirement, Andrus Gerontology Center, has developed information about the characteristics of older workers which are particularly relevant to the workplace, as follows:

Productivity

Overall, work productivity does not decline as a function of age. The difference in productivity between younger and older workers is generally less than the difference within the ranks of younger workers or any one age group. Research has documented the characteristics of older workers in this regard:

In 1977, 4 percent of the work force employed by Bankers Trust & Casualty Co. were over 65. The majority of these workers were concentrated in clerical jobs. Approximately 30 percent were managers or supervisors. Few older workers were in technical positions. According to company management, their older workers were more dependable, had better attendance records, stayed on the job longer, and did as much work as younger employees.

Employees aged 60 and over comprise 20 percent of the sales force of the Texas Refining Corp., a manufacturer and distributor of roofing materials and wall coverings. These older employees have the highest sales averages according to company management. In addition, older workers are dependable, inclined to stay on the job, and easy to work with.

The Department of Labor in 1956, 1957, and 1960 did a series of studies on factory workers in two light manufacturing industries and clerical workers in Government and private offices to investigate age differences in performance. Findings show that clerical workers aged 65 and over had the highest performance record. The productivity of factory workers did not vary substantially between age groups, leading the researchers to conclude that employers should evaluate the potentials of the individual rather than his or her chronological age.

In the early 1950's, the Bureau of Business Management at the University of Illinois examined the effectiveness of over 3,000 retail, industrial, office, and managerial workers who were aged 60 or older. They found that in terms of absenteeism, interpersonal relationships, and quality and quantity of work, the majority of these older workers performed as well as or even better than younger workers.

Decisionmaking

A study conducted in 1975, by Ronald Taylor, found that older managers are more capable of evaluating available information when making decisions than are younger managers because of their greater experience. Older managers, however, take longer to reach a decision and are more hesitant about taking risks than are younger managers.

Intellectual Functioning

Research has shown that for many people IQ declines little with age. Generational differences in IQ have been found however. These are due to differences in education, media exposure, and nutrition.

Changes in intellectual performance as they relate to work roles are more likely to be affected by perception, set, attention, motivation, and physical state than they are by the capacity or age of the individual.

Motivation is a key factor which influences job performance. Many older persons overestimate the effect of age on their intellectual abilities. They then behave in ways which reinforce negative stereotypes.

Memory.—There are phenomenal differences in memory functioning between aged individuals. Some factors which can affect memory functioning are poor health, depression, emotional upsets, and poor nutrition. In the absence of these factors, age-related declines in memory are slight and have minimal effect on job performance.

Learning.—People who were capable of learning at a younger age and who continue to use their intellectual abilities, maintain their ability to learn in later life.

Supervisors and managers often believe that older workers have less interest and motivation in learning new job skills. Consequently, they may make career development and training opportunities less available to the older worker.

Once recruited and registered for training, older men are more likely than younger men to complete their training. Furthermore, once trained, older workers are likely to plan to remain with their employers longer than are younger trainees.

In some cases it may take an older worker longer than a younger worker to learn new skills or knowledge required for a job. Retention can be facilitated, however, if in the learning situation older workers do not have their attention divided while acquiring information nor have to reorganize material that they have just learned.

Results from studies have revealed the manner in which instruction for older people can best be organized. Older persons should be able to build upon past experience of a topic. They should be provided with cues and memory devices in learning. Older persons should learn in a supportive environment in which they can receive positive feedback. They should be allowed to learn at their own pace, and be encouraged to actively participate in the learning process.

Health

Life expectancy has increased over the last 30 years. On the average, a person aged 65 in 1978 could expect to live 16 more years.

Life expectancy at age 65, 1978

	Years
White males	14.0
White females	18.4
Black and other males	14.1
Black and other females	18.0
Both sexes (white)	16.4
Both sexes (all other races)	16.1
Both sexes (all races)	16.3

On the average, people reaching 65 in 1978 live 16.3 years.

The majority of people over 65 have at least one chronic illness; however, 80 percent of today's elderly are able to conduct their lives with little or no restriction in functioning caused by these health conditions. This is because modern medical treatment is able to control many chronic illnesses. Moreover, older people develop adaptive mechanisms which enable them to overcome restrictions caused by chronic conditions.

Age alone is a poor predictor of health status. There is tremendous variability within the older population in regard to health. Some people experience rapid decreases in good health with age, while others experience little or no decline.

For the average person, some diminution in physical and intellectual functioning occurs after age 60. The five senses also decline in acuity with age. Changes in vision and hearing are the most important.

Occupation may have an adverse impact on an individual's health. The Department of Labor's 7-year longitudinal study of white male workers aged 45 to 59 showed that 13 out of every 100 manual and less skilled workers were unable to work or had died by the study's end, compared to only 3 out of every 100 professional and technical workers. The steady increase in the number of service jobs and decrease in heavy labor jobs will contribute to a larger proportion of older people being able to work longer.

Accidents

The accident record of older workers is better than that of younger workers. This is true even when older workers have no more experience on the job than younger workers. Younger workers are more likely to take risks than older workers. Older workers, on the other hand, remove themselves from unsafe or uncomfortable circumstances and thus avoid situations where accidents are likely to occur.

Older workers generally have different types of accidents than younger workers. Older workers are more likely than younger workers to fall or to be hit by flying objects. Older workers are less likely to be caught in a machine or to be injured in starting a machine than are younger workers.

Older workers avoid accidents by using judgment based on their experience. They are less able to avoid accidents which call for quick, evasive actions.

Older workers function more effectively and have fewest accidents in work settings where both task and pace are not rigidly structured.[4]

3. EDUCATING EMPLOYERS ABOUT AGE-NEUTRAL EMPLOYMENT CRITERIA

In the coming years this country will need to reach new understandings about the impact of our aging labor force upon human resource policies and practices. Older persons will need to be seen as a potential resource rather than as a dependent population. To put this new understanding into practice, human resource managers will need to develop new perspectives and new management techniques for middle-aged and older workers. The application of age-neutral functional criteria in the human resource management system is a positive way for management to increase efficiency and productivity in ways consistent with this new understanding. Accordingly, in August, Senator Heinz released a staff information print, "Aging and the Work Force: Human Resource Strategies," exploring this approach in the broader context of the need for human resource managers to reexamine the currently accepted employment policies that tend to rush older workers into retirement while overlooking the productive contributions they are capable of making.

The executive summary of the report states:

> The demographics of aging in the United States will have increasingly more important implications for human resource managers as time passes. Companies will be dealing with an expanding and aging work force. Human resource planners in industry need to take a practical look both at national and at their own company demographics on middle-aged and older workers. There are several reasons for this perspective. First, just as the costs of social security will expand over the coming years, so will the costs of company pension systems increase as workers retire early and live longer. Second, as unpleasant as the phenomenon of age discrimination is, managers need to be aware of it. Rather than deal with workers in the courts, as was the case with minorities and women in the 1960's and 1970's, planners need to look at workers over the age of 40 in positive ways. The question should be how to use the work potential of these individuals for both their own benefit and company profit, rather than how to get rid of

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[4] National Policy Center on Employment and Retirement, Andrus Gerontology Center, University of Southern California, Los Angeles, Calif. Performance Capabilities of Older Workers. Released April 1981. Partial support for preparation of this document was derived from the Administration on Aging (AoA). Grant #90AP0002/01. The views expressed are those of the author and are not attributable to the AoA.

them through expensive early retirement policies. Third, middle-aged and older workers constitute—or, rather, can constitute—a highly productive segment of the company's work force. Oftentimes, human resource systems emphasize younger groups for development and allow older employees to drift toward retirement. A new and practical perspective is called for—one that looks to costs, profits, and benefits associated with investing in, and training workers, as they move through ages 40, 50, and beyond.

Developing and applying functional criteria and using them in the personnel and human resource system is a positive way to manage age variables in the company work force. Such criteria are age-free and can help managers develop hiring standards, performance appraisal systems, training and retraining programs, and all other components of the human resource system—including objective retirement norms. This paper discusses a variety of job analysis systems as the means to develop functional criterial with emphasis, for purposes of illustration, placed on functional job analysis.

Three case studies are presented for consideration. Aer Lingus, General Foods, and the air traffic control second career program provide illustrations of how human resource planning can address and accommodate age variables. In many instances, the organizational and training approaches used in the case studies work well for middle-aged and older employees—and for all other segments of the company labor force as well.

Productivity and age is a major concern for managers. Current 50-year-old workers may well stay on with the company for 20 or more years. Maintaining proficiency and developing flexible job design strategies are important. Unfortunately, studies on aging and productivity are inconclusive, as yet. While some criteria for assessing productivity are now available, it will be up to interested companies to further develop appropriate productivity measures. The paper presents one approach—a basic human capital analysis on the costs and possible benefits of retaining long-term workers.

The paper concludes with a series of recommendations. Because age is a universal characteristic affecting all employees, human resource managers can and should:

—Conduct an age analysis of their work force and make whatever changes are called for based on that data.

—Become familiar with age discrimination statutes and major cases in order to avoid litigation and policies that tend to lead to age discrimination.

—Review company hiring and promotion practices from an age perspective and suggest new ways to deal with middle-aged and older job seekers as well as current long-term employees.

—Develop and apply functional criteria as a means for evaluating, retraining, and arriving at positive alternatives for improved management of middle-aged and older employees.

—Employ more flexible retirement and retention options in order to help retain experienced and valued long-term workers rather than discard this potential resource.

—Develop an educational program on age factors affecting the company for policymakers, human resource planners, supervisors, and other appropriate levels of management.

C. CREATING NEW EMPLOYMENT OPPORTUNITIES

1. In-House Options for Employers/Employees

The desire of older workers to stay on their jobs with reduced hours has been a major factor in the changing attitudes and policies favoring alternative work scheduling. As mentioned earlier, permanent part-time work is becoming the favorite option of older employees.

Employers too, can benefit from alternative work schedules such as flex-time and shared-time in many ways: The returns, such as increased worker productivity and efficiency, higher employee morale, less turnover, fewer absences, and less idle job time, far outweigh the minimal investment required for implementing alternative work schedules.

With the advent of new work schedules in our society, some new descriptive terms have developed:

—*Job sharing:* Two workers share the responsibilities and benefits of one full-time job, each working part time.

—*Flex-time:* Starting and quitting hours are chosen by workers themselves within limits set by management. Usually the entire staff is present during "core" hours, such as from 10 a.m. to 3 p.m.

—*Work sharing:* As a means of preventing layoffs and reducing employment during times of economic hardship, employees voluntarily reduce their working hours temporarily.

—*Permanent part time:* Employees work less than the standard 40 hours a week but receive better wages and benefits than what are traditionally associated with part-time work. Permanent part time often extends into management and administrative positions and employees receive pro-rated benefits.

—*Compressed workweek:* Workers put in their total hours in fewer days, such as 4 10-hour days instead of 5 8-hour ones.

—*Flexi-place:* Employees work at home or at other offices near their homes to cut down on commuting time.

—*Job redesign:* Instead of laying off aging workers or those with physical limitations, work stations and tasks are redesigned to accommodate physical problems workers may have or develop.

These alternative work options are most viable when recognized as mutually beneficial by the employer and the older worker. At this time, not many older workers use work options because of the impact of reduced salary and benefits associated with part-time work. The companies that have implemented these options have found that they are alleviating skill shortages and budgeting problems, retaining valuable workers in the labor force, aiding recruitment, facilitating flexible production, improving the efficiency and performance of an organization, and preventing employee "burnout." Unions, however, often point out that alternative work options may undermine hard-won overtime benefits now guaranteed to workers. Some of the problems associated with these work options are usually administrative in nature—scheduling, paperwork, etc., so that firms with already existing computerized personnel/budget systems are at an advantage in implementing them.

PRIVATE SECTOR UTILIZATION OF EMPLOYMENT OPTIONS

Progressive business and corporate leaders are acutely aware of the changing structure of the American labor force. Coupled with responses to recent legislative changes concerning mandatory retirement, this awareness of the growing number of older workers has been translated into policy changes at the level of the individual company.

These policy changes and their resultant trends within companies were analyzed and prepared in two papers for the National Commission for Employment Policy and represent the most current "state of the art." The first report, "Emerging Employment Options for Older Workers: Practice and Potential, An Evaluation," [5] gives information concerning the structure of employment options, the key employer, and public sector policy variables influencing decisions to use options, and the form of such options. Managers responsible for the design, administration, and modification of programs providing special employment options for older workers were interviewed. Policymaking managers in Government were contacted to ascertain the role of Government institutions in influencing public and private employer decisions in providing options for older workers.

The second report, "Innovative Employment Practices for Older Americans," [6] expands, analyzes, and evaluates innovative program information collected as part of the national older worker information system, a computerized system funded by the Administration on Aging, containing information about innovative employment practices for middle-aged and older adults. Highlights of each executive summary of each report follows:

Emerging Employment Options for Older Workers: Practice and Potential, An Evaluation

> Helping older Americans to continue working, or return to work, is an issue of mutual concern to Federal, State, and local governments, to employers, and to the aged themselves, each for different reasons. The government is concerned with insuring adequate income and quality of life for the aged, as well as reducing dependence on public welfare. Private sector employers are interested in employ-

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[5] Gollub, Henton, and Waldhorn (SRI International), and Pul, Andrus Gerontology Center, U.S.C. Emerging Employment Options for Older Workers: Practice and Potential, An Evaluation. National Commission on Employment Policy. Washington, D.C., 1982.

[6] Root, Zarrugh, University of Michigan. Innovative Employment Practices for Older Americans. National Commission for Employment Policy. Washington, D.C., 1982.

ment options because they are experiencing a growth in the number of older employees, because they desire to promote a positive image of themselves, and because older workers can, in some cases, be more productive. Furthermore, as the number of skilled workers entering the work force decreases, retaining older workers may be essential. Public sector employers have some of the same concerns, but report that they are introducing changes in work arrangements more in response to pressure from the legislative and executive branches, and to some extent, unions, than out of concern for the efficiency of their operations or the welfare of older workers.

Overall, the context has been set for broader development of employment options for older workers. Regulatory policies, administrative changes, and experimentation with new models of employment assistance have established a framework on which more concerted efforts can be built. However, little linkage exists between the employment decisions of public and private employers and program activities designed to promote such employment options for older workers. At this point the need is to build on the successful innovations that have been developed, by promoting more systematic policy change that is sensitive to the conditions facing business, by spreading the concepts of new ways to work, and by encouraging better methods of linking older workers with labor market opportunities.

In order to develop policy strategies for Federal, State, and local governments that will help stimulate the availability of employment options for older Americans, an understanding of the practices of employers and how they are affected by the evolving policies of State and local governments is needed. To address this need, SRI International and the Andrus Gerontology Center at the University of Southern California carried out an evaluation of employer options for older workers and an analysis of State and local policy actions to encourage such options, to help develop a foundation for improving strategies.

The study, carried out under a contract from the National Commission on Employment Policy and the Department of Labor, included two research activities: An evaluation of seven types of work options for older workers in a sample of 25 business and government employers, nationwide, focusing on analysis of their program objectives, implementation requirements, and program consequences; an analysis of the policy actions taken by 15 State and 15 local governments in the areas of regulation and deregulation, tax policy change, program innovation, administrative reform, and public-private collaboration.

To accomplish the objectives of a broad strategy to increase employment options for older workers, policies at the Federal, State, and local levels could be developed. These might include:

Federal level.—Move beyond regulatory changes, such as eliminating mandatory retirement, perhaps emphasizing this at the State level. Consider tax credits for employer-provided training, or deductions for educational costs to the individual older adult. Insure that training employment programs, particularly those emerging under the Job Training Partnership Act, include older workers. Help such programs build on existing experience. Disseminate new work concepts about older adults. Develop employment brokerage services for the older worker. Promote development of national and local public-private partnerships to bring private resources and awareness to focus on older worker issues.

State level.—Build on past State regulatory innovation in ways sensitive to business conditions, particularly eliminating mandatory retirement and enabling permanent part-time work. Tax policy change is not likely to be an area of practical action, but linking older workers to assistance provided under economic development programs in the community may help. Developing State-level policy agendas should be a concern, emphasizing changes in regulatory and administrative practices in civil service—including job application procedures, eligibility, and job classification—and linkage of education systems to labor market needs. Using existing State resources in new ways should help expand existing services for older workers. States should consider working with private employers more in examining older worker issues, and encourage private industry councils to have older worker committees.

Local level.—There is a low probability that local regulatory or tax policies could be a useful area of activity, although some local jurisdictions may be more progressive than States. Administrative reforms seem to be a way to make the public employment system more helpful—by increasing job access, and by helping to redefine how public programs provide employment services to older adults. Program innovation in partnership with business should be a priority, including education of employers and older workers, as well as development of new types of brokerage services to fill labor market gaps.

Nonprofit sector.—Serve as a convenor and facilitator of business, government, and community interaction, as well as help develop and disseminate needed information to employers and older workers. Provide support for innovative models of employment service that have already been established.

Better linkages between public and private change already under way through education and brokerage of older workers, and appropriate changes in policies at different levels, can increase the array and quality of employment options open to older workers.

Innovative Employment Practices for Older Americans

Many companies recognize the importance of older persons in the labor force, but barriers still exist which limit their productive employment. Negative stereotypes may influence hiring and promotion decisions and training opportunities to upgrade skills may be closed off. Minor disabilities may interfere with work routines and there may be limited options for part-time employment which grows in importance with age.

In this paper, we examine private-sector employment programs/practices which are intended to increase employment options for older workers. Using the University of Michigan national older workers information system (NOWIS), a computerized information system containing descriptions of company programs/practices for older workers, an illustrative range of private-sector approaches are analyzed to determine the extent to which different employment problems are addressed and how these programs/practices meet the personnel needs of the companies involved.

The analysis suggests that programs are successful when they are symbiotic—benefiting both the worker and the company. Approaches tend to focus on special programs to use needed technical or professional skills and/or to employ people for part-time or temporary work. Most of the programs involve white-collar workers and those programs for blue-collar workers primarily address service occupations.

Social security policies, the regulation of employee benefits, and the state of the economy have important implications for the employment of older workers. Private sector programs can be expected to expand with the growth in the proportion of older persons in the national labor force. We can expect these efforts may be limited, however, to situations in which a program or practice works to the mutual advantage of the employer and the older worker. This limitation may particularly affect blue-collar production workers and nonclerical white-collar workers.

2. OPTIONS AT THE FEDERAL LEVEL

The Federal Government already significantly influences the work and retirement decisions of older persons; taken together, Federal programs and policies facilitate and promote a decision to retire. The policy issue today is whether there is too great an incentive to retire early, and whether there are too few policies to facilitate continued employment.

Table 4 gives a comparison of the selected options to increase employment of older persons. A discussion of the options follow.

TABLE 4.—COMPARISON OF SELECTED OPTIONS TO INCREASE EMPLOYMENT BY OLDER PERSONS

Option	Estimated increase in labor force	1983 estimated direct Federal expenditure increases or revenue losses [1]
Modify social security:		
Increase ages of normal and early retirement in social security to 68 and 65, respectively.[2]	If fully implemented, eliminates benefits for over 2 million retired workers 62 to 64 and their dependents, thus encouraging continued employment.[3]	If fully implemented, reduces outlays by about $17 billion.
Restrict maximum age of social security earnings test to 64.	About 150,000 workers, plus increased hours worked for over 200,000 workers.	Increases outlays by $3.5 billion, compared to test with maximum age 69.
Revise regulations for employers:		
Require continued accrual of private pension benefits.	50,000 male workers 60 to 70 by year 2000.	None.
Prorate private pension benefits for postretirement work.	About 20,000 workers	None.
Eliminate mandatory retirement at age 70.	195,000 male workers 60 to 70 by year 2000.	None.
Change other labor market programs:		
Establish an employment tax credit for low-income, unemployed older persons.	75,000 workers, assuming 5 percent of those eligible use the credit.[4]	Reduces revenues by $125 million.
Provide work experience for older persons.	50,000 workers [4]	Increases outlays by $175 million.
Provide retraining for skilled older workers.	About 30,000 workers 60 to 64 [4]	Increases outlays by $40 million.

[1] Does not include offsetting revenue increases resulting from additional payroll and income taxes.

[2] It is unlikely that this change would be implemented quickly and 1983 estimates are presented only to give an idea of the impact when fully implemented.

[3] The number of these persons who would enter the labor force is thought to be large, but is not known.

[4] Includes some workers who would have been hired without this program.

Source: Congressional Budget Office. Work and Retirement: Options for Continued Employment of Older Workers. July 1982.

(A) MODIFY THE SOCIAL SECURITY SYSTEM

Features of social security provide both financial incentives and disincentives for continued work by older persons; however, aside from problems of poor health, this system is probably the most important factor in inducing many older persons to retire. The Congress may consider changes in Federal programs and policies to facilitate and encourage continued employment by those older persons who could and chose to continue work.

The options likely to have the largest effects on employment probably would involve changing social security either by offering strong financial incentives for continued employment—thereby causing large increases in Federal outlays—or by penalizing retirement—thereby resulting in large Federal savings. Increases in employment also could be obtained, however, by other alternatives involving smaller Federal outlays or changes in Federal regulations. Further, any option that increases employment could also increase Federal revenues from payroll and income taxes, thus offsetting part of its cost.

(1) Social Security Age-Benefit Structure

Changing the relationship between the retirement age and social security benefit levels has been proposed as a means of addressing the long-term financial problems of the social security system, rather than as a means of providing greater employment opportunities for older persons. The proposals to raise the age of retirement would result in lower social security outlays because they would either limit eligibility for benefits or reduce benefit amounts. Although increasing the amount of delayed retirement credit would increase social security expenditures in the long run, outlays would be reduced in the first few years because of continued work by some persons who otherwise would have retired and begun to collect benefits. However, any such changes would not be implemented for several years.

Among the ways to modify the age-benefit structure are: (1) Change the age of entitlement for full and reduced benefits and/or, (2) restructure the amounts by which benefits are reduced for early retirement and increased for delayed retirement. These changes could increase significantly the incentive for older persons to continue working and decrease the propensity to retire early.

Several proposals call for increasing the normal retirement age from 65 to 68. Some plans would also increase the eligible age for early retirement benefits from 62 to 65, while others would leave the 62-year age limit intact but require larger benefit reductions for those retiring this early. Reluctance to increase the age for early retirement, even if the normal retirement age is increased, is usually based on concern for older persons in poor health and for those with poor employment prospects who might find it difficult to remain employed until 65.

According to CBO, if increases in the early and normal retirement ages to 65 and 68, respectively, were fully implemented in 1983, social security outlays to over 2 million retired-worker beneficiaries 62 to 64 and their dependents would be reduced by over $17 billion (see table 4). Extending the worklives of older persons would also result in increases in their incomes and in the total production of the economy.

Another change in social security could alter the amounts by which benefits are adjusted for early and delayed retirement. Reducing the benefits for retirement at 62, for example, to 55 percent of full benefits instead of the current 80 percent would offer a strong incentive for workers to remain in the work force until age 65 when they could collect full benefits. Assuming this change applied only to those reaching 62 after the implementation, initial savings would be relatively low—less than $1 billion during the first year and about $2 billion during the second—but outlay savings would continue to grow rapidly for several years as a greater share of the elderly population was included in the new rule. As many as 1 million persons age 62 to 64 might delay their retirement somewhat because of this change, including perhaps 400,000 persons who would not retire until age 65.

Increasing the amount of the delayed retirement credit would promote later retirement as well. One such proposal was part of the final package of recommendations released by the National Commission on Social Security Reform and is likely to be adopted by the 98th Congress. Under present law, a worker who delays retirement beyond age 65 and does not receive social security benefits is eligible for a delayed retirement credit. The worker's benefits are increased for each month between age 65 and age 70 the worker does not receive benefits. After age 70 the worker may receive benefits even if still working. For workers eligible for benefits after 1978, the delayed retirement credit is equal to 3 percent. The Commission's proposal would gradually increase, between 1990 and 2010, the delayed retirement credit to 8 percent, for workers attaining age 65 in 1990 or after. The estimated cost would be 0.1 percent of taxable payroll. This cost estimate assumes that retirement pattern would only be slightly affected by this change. If this change does result in significant changes in retirement behavior over time, the cost increase would be less (or possibly even a small saving could result).

(2) The Social Security Earnings Limit

The earnings limit in social security penalizes continued work by making benefit receipts conditional on at least partial labor force withdrawal. In 1982, retirees 65 to 71 lost $0.50 in benefits for each $1 they earned above an exempt amount of $6,000; retirees 62 to 64 lost the same amount for earnings above $4,440. This is equivalent to a tax of 50 percent on those extra earnings, in addition to the social security payroll tax and Federal and State income taxes. Benefits are not reduced by the amount of unearned income—including dividend and interest income from investments and private pension benefits. Options for modifying the earnings limit include restricting the ages of its application, increasing the earnings limit, or completely eliminating the limit. Each of these changes would stimulate employment both among those currently receiving reduced benefits because of the test and among those who have restricted their employment to avoid losing benefits. They would weaken the financial position of the social security trust funds, however, by increasing benefit payments. Removing the test for those 65 and older, for example, could increase the work effort of over 350,000 older persons in 1983, but would increase social security outlays by an estimated $3.5 billion (see table 4).

The Social Security Administration estimates that lowering the maximum age for the earnings limit from 71 to 69 in 1983 (as will occur under current law) will increase benefit payments to 150,000 to 200,000 persons and cost $600 million. The increase in employment that will result from reducing the maximum age to 69 will probably be small. Further reducing the age to 64 could add 75,000 to 300,000 persons age 65 to 69 to the work force in addition to increasing the number of hours worked by over 200,000 workers. There is no reliable estimate of the employment that would be stimulated by total elimination of the limit.

Increasing the amount of exempt earnings for persons 65 and older would also increase benefit payments and employment. Although the employment increases that would result would be less than those from total elimination of the limit for those 65 and older, firm estimates are not available.

These changes in the earnings limit could result in additional payroll and income tax revenues, thereby offsetting part of the increased outlays. The increased work effort by those who might be induced to reenter the labor force would add to revenues.

At issue in the debate over the earnings limit is the "insurance" versus the "annuity" model of social security. Some proponents of easing or eliminating the limit argue that social security benefits should be paid as a matter of right once the eligibility age is reached. Others maintain that removal of the limit would undermine the main purpose of the social security program, to replace earnings losses caused by retirement.

(B) REVISE EXISTING REGULATIONS FOR EMPLOYERS

Changes in Federal regulations of private pension systems and antiage discrimination laws could provide additional opportunities for older persons to continue their employment. Each of the options described below would not add to direct Federal outlays but could impose costs on employers.

(1) Increase Allowable Work After Retirement Under Private Pensions

Under present regulations, a pensioner can work up to 40 hours per month without losing his or her pension. An option for modifying private pension regulations would be to increase the amount a beneficiary could work without risking the suspension of pension benefits. Because over 85 percent of private pension beneficiaries also receive social security, the effect of changing this provision would be determined in part by the amount of the social security earnings limit. If the earnings limit were raised or eliminated, raising the 40-hour limit for private pensions could have a significant effect on part-time employment by private pension beneficiaries.

An alternative would be to require that pension benefits be provided on a prorated basis according to the fraction of full-time hours worked by a pension beneficiary. For example, a person working half time would receive half of the full pension amount. Approximately 20,000 additional retirees age 65 to 69 might choose to work part time under this rule, at an added cost to private plans of $20 million.

(2) Require Continued Accrual of Private Pension Benefits

If pension plans regulated under the Employee Retirement Income Security Act (ERISA) were required to continue to accrue pension credits for work even after a person has met the age and service requirements for normal pension benefits, this would encourage some persons to continue working after becoming eligible for benefits. Currently, employment beyond normal retirement need not add to a worker's (deferred) pension amount.

If this change were implemented, an estimated 50,000 more men age 60 to 70 would be employed in the year 2000, assuming the mandatory retirement limit of age 70 was retained. If that limit was removed as well, a total of 68,000 more men age 60 to 70 probably would be in the work force by that year.[7]

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[7] U.S. Department of Labor. Interim Report: Studies on the Effects of Raising the Age Limit in the Age Discrimination in Employment Act. December 1981, p. 223.

(3) Prohibit Mandatory Retirement

Another option affecting the practices of employers of older workers would be to remove the retirement limit of age 70 under the Age Discrimination in Employment Act (ADEA). While eliminating this upper limit could have a moderate impact on employment of older persons, its effect on the labor force as a whole would likely be small.[8] If the upper age limit were removed altogether, the Department of Labor estimated that 195,000 additional male workers age 60 to 70 probably would remain in the labor force in the year 2000. The majority of this increase was predicted to occur in the 65 to 70 age group, in which 65,000 additional workers age 65 to 67 and 90,000 age 68 to 70 were forecast. The report estimated that the increase of 195,000 workers would represent about 5 percent of the age 60 to 70 male work force, but less than 0.2 percent of the total work force in the year 2000.

(C) CHANGE OTHER LABOR MARKET PROGRAMS

The Federal Government could increase both the demand for and supply of older workers by targeting employment assistance for those persons. Demand could be enhanced by providing employment subsidies to firms that hire older workers, and more older persons could be induced to continue or resume their employment by programs to improve their "employability."

(1) Provide Employment Tax Credits for Older Workers

Increased demand for older workers could be stimulated by providing an employment subsidy for their wages. This could be accomplished by paying employers directly or by reducing the employer's Federal tax liability. Older workers could be added to the targeted jobs tax credit (TJTC), which provides employers with a nonrefundable credit on a portion of the wages paid to certain economically disadvantaged or handicapped persons. The current tax credit is 50 percent of the first $6,000 in wages during the first year of employment and 25 percent during the second year.

Because of the limit on the amount of wages subject to the tax credit and the earnings limit in social security, the likely effect of adding this target group to the TJTC would be primarily to create part-time jobs for older persons. Both the employee and employer would incur large reductions in the value of further employment after a certain income had been earned—$6,000 annually for employers, and the earnings limit for employees collecting social security.

(2) Increase Employability

Another approach to facilitate employment by older persons would be to increase their employability by providing: (a) Job search assistance and work experience; and (2) retraining of more skilled older workers who have been displaced from their former jobs or who wish to change careers.

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[8] Ibid. p. 231.

The Federal Government could assist potential labor market entrants and reentrants by providing counseling on job-search strategies and by facilitating work experience. Federally financed job-search assistance is now provided by the Employment Service (ES) a federally funded and State administered system of approximately 2,600 offices throughout the country. There are several "job-bank"/career counseling programs in place across the country on the private level which have met with much success.

Those workers with employment experience could be helped through counseling and specific skill enhancement programs. Job counseling could be provided by the Employment Service and could consist of matching the abilities of these workers to existing employer demands.

Many older workers have strong labor market skills and are only in need of retraining for jobs in areas of current demand. Of the several skill enhancement techniques appropriate for dislocated workers, two would be most appropriate for older persons: Vocational-technical training and limited educational training. Vocational-technical training would be appropriate for skilled blue-collar workers who need to acquire additional specific skills to match available jobs. This training could be most efficiently provided by existing private organizations that are in close touch with local labor markets and whose continued existence requires that they provide those skills in greatest demand. Federal support could consist of subsidizing the costs of tuition and expenses, which for similar training in other programs has cost about $3,200 per participant.

D. CONGRESSIONAL ACTION DURING 1982

1. Job Training Partnership Act

The Job Training Partnership Act (JTPA), a new employment training program, to be operated in conjunction with the private sector, was approved by the 97th Congress to replace the Comprehensive Employment and Training Act (CETA). No funding level was specified in the legislation, but a continuing appropriations resolution for fiscal year 1983 provides $3.764 billion for job training programs, which will be in transition from the old CETA system throughout fiscal year 1983. In fiscal year 1982, CETA was appropriated $3 billion, although the program operated with an additional $700 million in carryover money. A continuing resolution currently funds the job training program, and the JTPA is scheduled to begin October 1, 1983. The continuing resolution, intended to maintain programs at fiscal year 1982 operating levels, expired December 17, 1982, and was replaced with another continuing resolution on December 21, 1982.

The final House-Senate conference version of S. 2036, authorizes a permanent program with a funding level of "such sums as necessary." The House Education and Labor Committee originally reported a bill authorizing $5.4 billion for job training but this amount was deleted by an amendment on the House floor. The Senate version of the bill originally carried a price tag of $3.9 billion for fiscal year 1983 and "such sums as necessary" thereafter.

However, the Senate Labor and Human Resources Committee also agreed to delete a specific funding level. In its report on the bill, the Senate panel stated its intent that funding be at the level assumed in the Senate version of the first concurrent resolution in the fiscal year 1983 budget, which is approximately $3.8 billion. Both the House and Senate bills had provided for some statewide activities on behalf of older workers. Title I, section 109(a-d) provides authority for special training programs for economically disadvantaged workers aged 55 or older. The conferees stated that:

> The committee recognizes that absolute rates of unemployment among older workers are lower than the rates for youth, yet the proportion of those unemployed who have experienced long-term unemployment is far higher among older workers. In 1981, unemployment among males aged 55 and over rose at a far greater rate than among males below that age. Moreover, older workers more frequently become discouraged and drop out of the labor force entirely.

The training program for older workers is designed to facilitate the continued participation of older persons who are not currently in the labor force. Under this section, 3 percent of the funds available for State and local programs are to be directed toward older worker training programs. The programs, while administered at the State level, are to be developed in conjunction with the more broadly based local planning of the basic job training program, and are to be consistent with the local plan.

The specific language of the bill is as follows:

> Section 109(a) states that the Governor is authorized to use funds available under section 101(c)(4) for job training programs for older persons developed in conjunction with service delivery areas.
>
> Section 109(b) states that, in carrying out this section, the Governor, after consulting with private industry councils, may enter into agreements with public or private service deliverers.
>
> Section 109(c) states that the Governor shall give consideration to training programs for occupations in growth industries and new technologies.
>
> Section 109(d) states that an individual is eligible for participation in programs under this section only if the individual is economically disadvantaged and is at least 55 years of age.

Both the House and Senate bills had provided for some statewide activities on behalf of older workers and for coordination with State education agencies. Both bills also provided for a State labor market information system, which will be overseen and managed by the State occupational information coordinating committee or another unit designated by the Governor.

2. MEDICARE OLDER WORKERS PROVISION IN THE TAX EQUITY ACT OF 1982

In the last decade there has been an increasing trend by the Federal Government to seek ways to curb the rising costs of medicare. One such proposal to limit costs, included in the Tax Equity Act of 1982 (TEFRA), legislated changes in medicare coverage for older workers. This change was prompted primarily by the desire to save medicare expenditures. The provision eliminates the past practice that permitted employers to offset health care benefits for older workers by using medicare as the primary health insurance payer. The provision, effective January 1, 1983, requires employers to offer their older employees age 65 through 69, and their dependents, the same health benefits as are offered to their younger employees. The change does not affect employers with less than 20 employees, or firms not providing health insurance.

Although there will be no increase in direct Federal costs (medicare will realize savings), shifting primary responsibility to the employer could increase their fringe benefit costs due to higher health insurance expenditures. Health insurance, according to the U.S. Chamber of Commerce, is estimated at about 5 percent of payroll and has a per capita cost which rises with age. But often overlooked is the cost of coverage for dependents, who are more numerous for younger employees, mitigating the higher costs for older workers. Before this proposal became law, employer costs were drastically reduced by medicare coverage, often to less than one-fourth of normal expenditures for older workers.

Language in the conference report indicated that the intent of Congress was for an employee to have the option of rejecting the plan offered by the employer, thereby retaining medicare as primary coverage. The Secretary of Labor is charged with promulgating regulations to prevent employers from offering a group health insurance plan or option which is designed to circumvent this provision in an attempt to induce employees to reject the employer general health benefits plan offered to other employees under the age of 65.

The impact of this provision cannot yet be exactly measured. However, ICF, Inc., in a recent report, estimated the costs to employers in firms with 25 or more employees. According to the study:

—An additional 110,000 workers age 65 to 69 will now be covered under their employers' plans, raising the percent covered in this age group from 37 to 47 percent.

—The average annual premium for workers covered by the amendments in 1983 will be $1,598, compared to an average of $621 per year when medicare was the primary payer of these employees age 65 to 69.

—If health insurance plans previously excluded workers 65 through 69, the $1,598 premium estimate represents about a 12.5-percent increase in average annual compensation costs. For plans providing secondary coverage for older workers, the estimated premium increase of $977 (=$1,598−$621) represents a cost increase of 7.7 percent per affected employee.[9]

The Equal Employment Opportunity Commission was charged with approving the regulation to implement this change. The regulations, which became effective on an interim basis January 1, 1983, were approved by a 3-2 vote at a Commission meeting December 14, 1982. Under the Commission's interpretation of the rules, employers would be required to give older workers the option of full participation in a company-sponsored program, or the option of participating in a medicare package, so long as it bears the same cost to the employer as regular company-sponsored health insurance for employees under age 65. The rules were sent to the Office of Management and Budget (OMB) for approval on December 27, 1982. If OMB proposes changes in the draft regulations, they must be resubmitted for further action by the Commission.

3. SENATOR CRANSTON INTRODUCES S. 3010

On October 1, 1982, Senator Cranston introduced the "Employment Opportunities for Older Americans Act of 1982." The bill deals with a number of statutes relating to older workers. Among other provisions, the bill would:

—Eliminate the age 70 cap in the ADEA.

—Amend the ADEA to state clearly that older workers are treated the same as younger workers with regard to the accrual of pension benefits. (A companion amendment would prohibit plans under ERISA from containing this type of discrimination.)

—Prohibit an employer from withholding pension benefits so long as the pensioner did not work more than 1,000 hours per year.

—Provide for cutting in half the FICA tax for workers over the age 65 with respect to wages.

—Extend the existing targeted job tax credit to low-income older workers.

—Provide antiwage discrimination language in the National Apprenticeship Act.

—Create partially refundable tax credit for people 65 and older who lose social security benefits under the earnings limit

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[9] Anderson, Joseph. From a study, Estimated Costs to Employers of Amendments to the Age Discrimination in Employment Act. ICF, Inc., Washington, D.C., December 1982.

Chapter 12

AGE DISCRIMINATION

OVERVIEW

Age discrimination in employment continues to play a pernicious role in blocking employment opportunities for older workers. It is not a new problem. According to the Department of Labor, the emergence of discriminatory employment practices for older workers can be traced to the late 1800's in the United States.[1] The most common of these practices were age limits for hiring and restrictive physical examinations. There is some evidence to indicate that even at this time, negative attitudes about the capacities and productivity of the aged were already common in the Nation. The development of retirement as a social pattern in industry may have served to enhance and legitimize employment discrimination practices despite early evidence that older workers were capable, conscientious and productive employees.[2]

Prior to 1920, age discrimination practices in employment were justified primarily on the basis of the belief that "modern technology" required substantial physical strength, agility, and endurance which was generally beyond the capacity of older workers. The requirements of industrial technology and efficiency were seen as causing the employment problems of the older worker, and justifying early discharge from employment.

Despite the gradual publication in the 1930's of industrial studies that demonstrated the advantages of older workers in terms of productivity, reliability, and physical capacities, limitations on employment of older persons persisted and grew largely because personnel managers and other corporate officials remained unconvinced of the productive capacity of older workers. Rigid age limits in hiring continued to be utilized to limit the number of older workers in the labor force.

These conditions led to early studies of age discrimination, most of which concluded that the technological environment combined with pensions, group insurance, and workmen's compensation, were responsible for the continuation of discrimination practices. Nevertheless, gradually and imperceptibly, a shift in beliefs about age discrimination occurred, with negative stereotypes about older workers becoming the dominant reason for the continuation of discriminatory employment practices.

With the passage of the Social Security Act in 1935, retirement as a social pattern gradually emerged in a society where age discrimination was already widely practiced. While age discrimination did not diminish in intensity, retirement permitted employers to arrange the work force so that younger workers were predominant and resulted in reducing the demand for employment by older workers. Gradually, early retirement policies, accompanied by continuing discrimination in employment based on age, became a consistent and a significant social pattern which resulted in substantial reductions in labor force participation by older persons.

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[1] Historical information in this section is from an unpublished paper prepared by the Employment Standards Administration. DOL.

[2] Graebner, W., A History of Retirement, Yale University Press, New Haven, Conn. 1980.

A. AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967

Title VII of the Civil Rights Act of 1964 has come to represent the main Federal effort to bring about equal employment rights and opportunities for groups encountering discrimination in employment.

Although age protections were considered while title VII was passing through the legislative process, Congress decided not to include age as a protected category. The statute did, however, direct the Secretary of Labor to conduct a study on the matter and report back to Congress on the prevalence and seriousness of age discrimination. The 1965 report submitted to Congress concluded, in part, that:

> There is a persistent and widespread use of age limits in hiring that in a great many cases can be attributed to arbitrary discrimination against older workers on the basis of age and regardless of ability. The use of these age limits continues despite years of effort to reduce this type of discrimination through studies, information, and general education by the Government. The possibility of new nonstatutory means of dealing with arbitrary discrimination has been explored. That area is barren.

Congress responded to the report by holding hearings which together with the report provided the foundation for the Age Discrimination in Employment Act of 1967 (ADEA).

The ADEA was enacted to "promote employment of older persons based on their ability rather than age; to prohibit arbitrary age discrimination in employment; and to help employers and workers find ways of meeting problems arising from the impact of age on employment. The act prohibited employment discrimination against persons aged 40 to 65. These age limits were chosen to focus coverage on workers especially likely to experience job discrimination because of their age. The upper age limit was set at 65 because it was the common retirement age in U.S. industry and the normal eligibility age for full social security benefits.

The 1967 ADEA contained the following exceptions:

> It shall not be unlawful for an employer, employment agency, or labor organization to:
>
> (1) Take any action otherwise prohibited under subsection (a), (b), (c), or (e) of this section where age is a bona fide occupational qualification (BFOQ) reasonably necessary to the normal operation of the particular business, or where the differentiation is based on reasonable factors other than age (RFOA).

> (2) Observe the terms of a bona fide seniority system or any bona fide employee benefit plan such as a retirement, pension, or insurance plan, which is not a subterfuge to evade the purpose of this act, except that no such employee benefit plan shall excuse the failure to hire any individual; or
>
> (3) Discharge or otherwise discipline an individual for good cause.

It is important to examine the exceptions, especially the first two, because they set the scene for important litigation.

The so-called bona fide occupational qualification (BFOQ) exception is based on the assumption that sooner or later the effects of aging will limit an individual from performing certain job functions. The question that comes to mind is whether an employer is bound to hire older job applicants for heavily demanding jobs, or retain an incumbent older worker in such a job if there is evidence that the worker's performance is not keeping up with job demands. Does age, of itself, become a limiting factor so that employers can make accurate judgments on the hiring and termination of older workers? The litigation surrounding the BFOQ issue is ambiguous, to say the least.

The "reasonable factors other than age" (RFOA) part of section 4(f)(1) is also ambiguous. For an employer to terminate or refuse to hire an older worker on the RFOA grounds means that there must be objective evidence in support of the action to show that age was coincidental to the personnel procedure which has an adverse impact on the older worker. This is difficult to demonstrate.

The second exception which allowed employers and labor unions to collectively bargain for a mandatory retirement age lower than 65, was also challenged in the courts and abolished by the 1978 ADEA amendments. The exception permitted an early retirement stipulation as part of a bona fide pension plan (one that pays a specified amount of beneficiaries), if it was not a subterfuge to violate the protections of the act.

The third exception allows employers to terminate or otherwise discipline employees for good cause. Insubordination and related matters could constitute good cause.

Despite the litigation which resulted from these exceptions, no changes in the BFOQ section have been made and it remains as problematic as it was in 1968 when the ADEA went into effect.

Since 1967, the ADEA has been amended twice. The first set of amendments occurred in 1974, when the provisions of the act were extended to include Federal, State, and local government employers. Also, the number of workers in establishments and labor organizations covered by the act was reduced from 25 to 20.

In 1978, the act was amended to extend protection beyond age 65, without any upper age limit for employees of the Federal Government and until age 70 for most other workers. Regulations implementing the 1978 amendments, however, specified that employers are not bound to credit years of service worked beyond age 65 to final pension benefit levels. This has and continues to be a disincentive to continued work beyond age 65.

Other features of the 1978 amendments were:

—No union or employer can arrange or collectively bargain for early retirement prior to age 70 as the condition for participation in an employee benefit plan.

—Compulsory retirement was permitted for bona fide executives and high policymakers at age 65.

—Colleges and universities were permitted to retire tenured employees at age 65 until July 1, 1982.

—A jury trial was authorized to determine issues of fact under any ADEA action.

—An aggrieved party was allowed to file a charge of age discrimination against an employer rather than a notice of intent to sue.

—A hold was put on the running of the statute of limitations for up to 1 year, while conciliation procedures are in effect.

In eliminating the mandatory retirement age for Federal employees, exceptions were made for Federal prison guards, air traffic controllers, foreign service officers, and some other special groups.

The 1978 amendments also required the Secretary of Labor to conduct an extensive study on the consequences of the new coverage provisions of the law including:

—An examination of the effects of raising the upper age limit under the act to 70.

—A determination of the feasibility of further extending or eliminating the age 70 limit; and

—An examination of the effects of the exemptions in the law permitting mandatory retirement of tenured faculty members at institutions of higher education and certain business executives.

The Department of Labor was required to submit an interim report in 1981, and a final report, including departmental recommendations, in 1982.

1. ENFORCEMENT OF THE ADEA

During the first 10 years after its passage, enforcement of the ADEA was the responsibility of the Department of Labor.

As a result of President Carter's Reorganization Plan No. 1 of 1978, implemented on June 22, 1979, by Executive Order 12144, enforcement responsibility for the ADEA shifted from the Labor Department to the Equal Employment Opportunity Commission (EEOC). The purpose of this shift was to consolidate all Federal enforcement of job-regulated civil rights in one agency.

This move raised a number of issues concerning enforcement of the ADEA, including:

—The Department of Labor had gained 10 years' experience in enforcing the act. Could that experience be transferred to the EEOC?

—DOL, through its Wage and Hour Division, had a nationwide network of over 300 offices and outreach stations through which complaints could be placed. The EEOC has 22 district and 27 area offices throughout the country. Would older workers have adequate access when seeking to file charges of age discrimination?

—The EEOC had primarily been involved in the enforcement of title VII of the Civil Rights Act which offered job protection for women and minorities. Would older persons, as a new "protected" group, receive adequate service?

Oversight hearings were held by the House Select Committee on Aging in 1980, and addressed these and other issues about the effectiveness of enforcement under EEOC. A panel of five older workers raised serious questions about the adequacy of the protection and service by EEOC. Eleanor Holmes Norton, Chair of EEOC, testified that the most significant trend in the ADEA jurisdiction, following its transfer to EEOC, was an extraordinary growth in the number of complaints, but that she had no explanation for why this had occurred.

A report by the EEOC placed the number of complaints received during fiscal year 1980 at 8,779; the number was expected to exceed 10,000 by the end of fiscal year 1981.

The Select Committee concluded that continued oversight by congressional committees is necessary to insure that the EEOC is vigorously pursuing and effectively meeting its ADEA mandate.

2. SENATE AGING COMMITTEE OVERSIGHT OF THE EEOC

Because antiage discrimination enforcement activities are of such critical importance, Chairman John Heinz initiated oversight proceedings of the EEOC in September 1981. In a letter to Acting EEOC Chairman Smith, Senator Heinz stated:

> The objective of the oversight procedure is to examine the Commission's enforcement activity of the Age Discrimination in Employment Act since it assumed jurisdiction over the statute 3 years ago. We will identify problem areas that might exist and recommend ways in which the Commission can improve enforcement activity.

The result of these proceedings was an oversight report released by the committee in November 1982. The report, "EEOC Enforcement of the Age Discrimination in Employment Act: 1979 to 1982," represents the first thorough congressional oversight of the ADEA.

Age discrimination cases represent the most rapidly increasing class of complaints filed with the EEOC, up 60 percent in the last 3 years. ADEA complaints now constitute 30 percent of the EEOC's total caseload.

The committee report found that enforcement cases actually filed in court by the EEOC fell off dramatically during 1982. The number of complaints received during fiscal year 1980 reached 8,799 (combined State and Federal charge intake); in fiscal year 1981, that number exceeded 10,000.

Findings and recommendations to strenghten ADEA enforcement made to the EEOC by the committee report include:

(A) DIRECTED INVESTIGATIONS

Findings: The Commission has undertaken virtually no directed investigative activity under the ADEA. Instead, its resources have been targeted almost exclusively at individual charge resolution. As a result, directed investigations constituted less than 1 percent of the Commission's ADEA caseload in both fiscal years 1980 and 1981. In fiscal year 1980, the average number of directed investigations instituted per office was 3.8. The number of directed investigations per office bore little or no relationship to the office's charge intake or caseload. Rather, the failure to institute significant numbers of directed investigations seemingly stemmed from inadequate advance planning and insufficient priority attached to directed work. In addition, various institutional procedures and requirements apparently operate as a disincentive to the initiation of directed investigations.

The Commission claims that it has sustained an unanticipated increase in charge filings under the ADEA, which necessitated concentrating its resource in the area of individual charge resolutions. However, the increase in charge filings should not have come as a total surprise to the Commission. Historically, there has been an annual increase in title VII charge filings almost every year since the statute's enactment, thus, a certain annual increase in ADEA filings should also have been expected. In addition, the 1978 amendments to the ADEA may well have generated a higher level of public awareness, especially among older workers, as to rights under the ADEA. Moreover, the Commission's longstanding policy under title VII has been to accept all charges filed, even those which are dismissed for lack of jurisdiction. The Commission has adopted the same approach with respect to ADEA charges. This apparently is contrary to the former practice by DOL, where the filing of a number of charges which were either nonjurisdictional or appeared nonmeritorious were discouraged.

Recommendation: The ADEA's intent could be advanced by a more self-consciously directed program of investigation and targeted litigation, rather than the reactive and limited litigation effort which now characterizes the EEOC's ADEA caseload.

(B) LITIGATION STRATEGY

Findings: Under title VII, the Commission operates an independent office of systemic programs, with the staffing in headquarters and the field, whose sole function is the development of systemic targets, investigation, and litigation of those cases. The Commission attaches a high priority to these title VII systemic enforcement efforts. By contrast, the Commission had dedicated no ADEA personnel or resources to the development of an ADEA systemic enforcement program. Rather, all ADEA enforcement responsibilities are consolidated into one age unit in headquarters, with corresponding offices in the field. These units are not expected or required to initiate systemic ADEA investigations or to develop ADEA systemic litigation targets. There is no apparent reason for the difference in treatment with respect to systemic enforcement between the Commission's title VII and ADEA functions.

Recommendation: The Commission should institutionalize an ADEA systemic program and move promptly toward its implementation. When the enforcement function was transferred to the EEOC, the age attorneys were moved into title VII units. While they have always worked exclusively in the age area, it may well be that with the growth of the ADEA litigation docket, it would be appropriate to create a separate age unit within the Trial Division. The creation of a separate unit would give ADEA issues greater visibility, facilitate monitoring, and effectuate the development of policy through litigation. With the corresponding greater visibility and significance that would attach to that unit, increased focus on systemic activities would be likely to follow.

(C) INSTITUTIONAL EXPERTISE

Findings: The Commission risks losing its institutional expertise in ADEA law as a result of internal reorganization which combines title VII and ADEA functions at all levels. New charge-processing procedures may have affected ADEA enforcement in two respects. First, potentially strong enforcement vehicles may well be lost as a result of the pressure to settle as many cases as possible early in the process. And second, the extent to which the Commission has formalized its ADEA enforcement procedures may have limited the ability of investigators to negotiate findings of violations, since respondents may resist entering into settlement negotiations until they see whether the Commission will issue a formal letter of violation.

Recommendation: The Commission should determine whether its ADEA enforcement is being undermined by the reorganization and take steps to restore and renew its authority and credibility. While there is no question that the inflationary costs of litigation, coupled with budget reductions necessitate some "belt-tightening" at the Commission, neither of these considerations justifies a retrenchment of enforcement effort. The Commission needs to guard against even the appearance of such a retreat from its statutory mandate.

Accordingly, the preface to the report states:

> As the proportion of older workers in the labor force grows over the coming years, the Commission will be called upon to become ever more sensitive to the employment rights of older workers. We also believe that the Commission has a very important role to play in educating employers, unions, and employees about the need to keep older workers productive in society. This oversight report both identifies existing problem areas and recommends ways in which the Commission can improve its ADEA enforcement activity.

Copies of the report are available from the Senate Special Committee on Aging, SD-G37 Dirksen Senate Office Building, Washington, D.C. 20510.

3. REPORT TO THE CONGRESS ON AGE DISCRIMINATION IN EMPLOYMENT ACT STUDIES

Pursuant to section 5 of the ADEA as amended in 1978, the Department of Labor was required to study the effects of raising the mandatory retirement age to 70, evaluate the probable consequences of eliminating this age, and review the effects of exemptions from the mandatory retirement age for tenured faculty members and certain business executives. The results of this study were required to be submitted to Congress in an interim report (transmitted by the Secretary of Labor in 1981), and a final report (submitted to Congress at the end of 1982).

The executive summary of the interim report states:

I. INTRODUCTION

BACKGROUND

The Age Discrimination in Employment Act Amendments of 1978 (Public Law 95-256) required that the Secretary of Labor conduct an extensive study on the consequences of the new coverage provisions of the law including: (a) An examination of the effects of raising the upper age limit under the act to 70; (b) a determination of the feasibility of further extending or eliminating the age 70 limit; and (c) an examination of the effects of the exemptions in the law permitting mandatory retirement of tenured faculty members at institutions of higher education and certain business executives. The 1978 study requirements were placed in the context of a general requirement already in the ADEA, that the Department undertake an appropriate study of institutional and other arrangements giving rise to involuntary retirement and report findings and any appropriate legislative recommendations to the President and Congress. The amendments required that the Department of Labor report study findings to Congress in an interim report in 1981. Also, a final report on the studies, including departmental recommendations, is required to be submitted in 1982.

In response to this requirement, the Department of Labor initiated in 1979, an extensive series of studies designed to produce information on the current and probable future consequences of the 1978 ADEA amendments. Research findings from most of these studies are summarized in this interim report. These findings include information on the labor force participation effects of mandatory retirement, response of current workers and employers to the increased mandatory retirement age, long-term projections of the consequences of mandatory retirement age alternatives, and the effects of the ADEA exemptions for tenured faculty at institutions of higher education and for executives. The interim report presents the most important research findings relevant to the major areas of congressional concern—the effects of raising the upper age limit in the ADEA to 70; the feasibility of extending or eliminating the upper age limitation; and the effects of the exemptions in the law for tenured faculty members and certain business executives.

In conducting these studies, the Department of Labor was concerned with both the impact of mandatory retirement on individuals and the administrative and financial consequences of the ADEA amendments for employers. In addition the Department recognized that the retirement decision is simultaneously influenced by mandatory retirement policies, public and private pension policies, and personnel policies. The study findings in this report examine the consequences of mandatory retirement policies in the context of these other major factors influencing retirement behavior.

The Age Discrimination in Employment Act Amendments of 1978 represented a substantial modification of the provisions of the act by extending the upper age limit of protection under the act to age 70 for most private sector and non-Federal public employees, prohibiting mandatory retirement of covered workers under employee benefit plans, and extending age discrimination protection without an upper age limit to almost all Federal employees. In enacting these provisions, Congress was concerned about potential consequences of increasing the mandatory retirement age. The major areas of concern included: (1) The possibility of an adverse impact on employment opportunities for younger and minority employees resulting from large-scale retention of employment by workers after age 65; (2) potential administrative burdens on employers; (3) possible cost implications for pension plans; and (4) possible difficulties for universities and major corporations in adjusting to the upper age limit of 70.

DEMOGRAPHIC AND RETIREMENT TRENDS

Two trends which have developed over the past 25 years are of major significance in considering the potential effects of the Age Discrimination in Employment Act—population aging and the decline in labor force participation by older workers.

Under intermediate demographic assumptions, the 65 and over population will increase from 25 million in 1980 (11 percent of the total population) to 32 million in the year 2000 (13 percent of the total population). The median age of the population which was 28 in 1970, is now 30 and will continue to increase. Contributing to population aging is the gradual increase in life expectancy; medical advances in the future could result in even greater life expectancy leading to higher proportions of older persons in the population. These trends will result in a gradual aging of the labor force in the coming years.

While the overall population continues to age, labor force participation by older workers has declined significantly over the past 25 years. For men 65 and over, labor force participation reached a new low of 19.3 percent in 1980 (28.5 percent of men 65 to 69 were labor force participants however). Declining participation was also occurring for men 55 to 64 and 45 to 54 years of age. Labor force participation by older women has been low but stable for many years.

It is generally agreed that the increasingly earlier availability of social security and private pension benefits and institutionalized mandatory retirement practices have led to the development and continuation of the early retirement trend and substantially lowered the labor force participation of older workers. A continuation of this trend will have two major consequences: (a) A substantially increased retirement financial support burden for a smaller work force; and (b) weak incentives for older persons to continue working in view of institutionalized mandatory retirement rules and income availability from pension programs. Declining labor force participation by older workers is of considerable concern since: (1) The economic position of retired persons will be significantly affected by longer periods of retirement and continued inflation; (2) early retirement increases the financial strain on the social security system and private pension programs; (3) shortages of skilled labor could develop in certain industries and geographical areas; and (4) older person's preferences for part-time employment are growing but labor demand is not sufficient to satisfy their employment needs. For these reasons, the potential for reversing the decline in labor force participation and raising or eliminating the mandatory retirement age are important major public policy issues.

ESTIMATED NUMBER OF EMPLOYEES WITHIN SCOPE OF THE ADEA

An estimated 73 million workers of all ages are employed by employers having 20 or more employees and are, therefore, covered by the Age Discrimination in Employment Act. The exact number of these workers who are in the 40 to 70-year-old group protected by the act is not known. However, labor force data show that of the 105 million persons 16 years of age and older who were in the civilian labor force in September 1980, 39 percent were 40 to 70 years of age. Applying this proportion to the estimated 73 million persons employed by covered employers, yields an estimate of 28 million persons covered by the ADEA or 7 out of every 10 persons aged 40 to 70 in the civilian labor force.

The final report's major recommendations include:

(a) Eliminating the mandatory retirement age in the ADEA except for hiring and promotion where current law would remain applicable.

(b) Retaining the business executive exemption in the ADEA permitting compulsory retirement of certain executives at age 65 or over.

(c) Retaining a temporary exemption in the ADEA for tenured faculty members permitting their mandatory retirement at age 70.

(d) A congressional review of several important issues related to pension benefit provisions, hiring and promotion of older workers, and ADEA legal procedures; and

(e) Development of an information and technical assistance program by the Department of Labor to improve employment opportunities for older workers.

Copies of the report are available from the Department of Labor, Employment Standards Administration, 200 Constitution Avenue, NW., Washington, D.C. 20210.

B. CONGRESSIONAL ACTION DURING 1982

LEGISLATION

On April 2, 1982, the President requested enactment of legislation to prohibit mandatory retirement based solely on age. President Reagan said, "When it comes to retirement, the criterion should be fitness for work, not year of birth." The administration designated the Labor Department to carry out negotiations with Congress and to determine the parameters of legislation to implement the President's statement. Accordingly, on June 10, 1982, Senator Heinz, along with committee members Burdick, Chiles, Cohen, Dodd, Durenburger, Glenn, Grassley, Melcher, Percy, Pressler, and Pryor, introduced S. 2617, a bill to eliminate the ADEA's upper age limit of 70. An identical bill, H.R. 6576 was introduced in the House of Representatives by Representative Pepper.

Three hearings on the bills were held before the: (1) House Select Committee on Aging, July 16, 1982; (2) Senate Labor and Human Resources Committee, Subcommittee on Labor, August 18, 1982; and (3) House Education and Labor Committee, Subcommittee on Employment Opportunities, September 9, 1982.

Organizations on both sides of the mandatory retirement issue testified before the Subcommittee on Labor of the Committee on Labor and Human Resources in the Senate. Witnesses were included in three panels: (1) Panel I: Senator Heinz, Representative Pepper, Under Secretary of Labor Malcolm Lovell; (2) panel II: Robert Thompson, representing the U.S. Chamber of Commerce; David Braithwaite, representing the United States Steel Corp.; (3) panel III: Charles Bakaly, attorney for employers in the labor and law fields; (4) panel IV: Edward Howard, representing the National Council on Aging; Ignor Kikorsky, attorney for plaintiffs in ADEA cases; James Hacking, representing the American Association of Retired Persons; and (5) panel V: John Dunlop on behalf of the American Association of University Professors, American Council on Education, Association of American Colleges, Association of American Universities, and the National Association of Independent Colleges and Universities.

Three major arguments in favor of retaining mandatory retirement were advanced:

(1) Mandatory retirement helps open up jobs for younger workers, women, and minorities.

(2) Mandatory retirement is acceptable to employees and those nearing retirement age.

(3) Mandatory retirement is a policy that avoids problems for both the employer and employee—problems that could result from trying to base continued employment on the basis of individual performance or competence.

Senator Heinz challenged each of these three claims in his statement:

(1) The Department of Labor study on the effects of the 1978 ADEA amendments found that abolishing mandatory retirement would have no adverse impact on those segments of the labor force. According to the study:

> The estimated additional number of comparable age-65 workers are potential competition for less than one-quarter of 1 percent of all full-time workers ages 16 to 24; less than one-half of 1 percent of all full-time black workers ages 16 to 59; and approximately one-tenth of 1 percent of all full-time female workers ages 16 to 59.

Additionally, the findings of the Labor Department study refute the idea that an increased number of older workers would significantly delay promotions for younger workers. One study reported that a 10-percent increase in the labor force participation rates of men age 65 and over (twice the projected impact of eliminating mandatory retirement) would delay, on average, promotions at the highest ranks by only one-half year while at the lower ranks individual promotions would be retarded by approximately 5 to 10 weeks.

(2) Nine out of ten Americans in a 1981 Harris survey stated that "Nobody should be forced to retire because of age, if he wants to continue working and is still able to do a good job." The poll found that three out of four retirees wished that they have never quit work. Further, the results of a delegate survey conducted by the Special Committee on Aging and the American Association of Retired Persons ranked the elimination of mandatory retirement and other forms of discrimination against older workers as fifth in their top 10 policy goals, behind social security and health care recommendations. As Senator Heinz stated:

> Staying on the job may be desirable for many older people because of the psychic rewards work brings. But for the majority, it is even more than just enjoyment and being alive; the decision is often an economic one. Work brings in money to supplement pensions and savings that are increasingly threatened by inflation.

(3) Many employers argued in 1978 that raising or eliminating the mandatory retirement age would force them to implement stricter performance evaluations that might work to the detriment of all older workers. The Labor Department study found that this did not occur. On the contrary, strict performance criteria existed alongside mandatory rules rather than as a replacement for them. This finding may explain why 38 percent of the Fortune 500 companies have no mandatory retirement age and why 51 percent of employers recently surveyed said they favored the complete elimination of mandatory retirement.

Senator Heinz pointed out that alternatives to mandatory retirement policies do exist for employers. The Senator released at that time the information paper by the Senate Aging Committee, "Aging and the Work Force: Human Resource Strategies." Discussed in the paper are working examples of companies that use such criteria with great success. The print provides practical guidance to employers on the application of age-neutral, functional job criteria.

Another argument asserted by the business community in favor of weakening the amendments to the ADEA is that plaintiffs prevail more frequently and with inflated damage awards in ADEA jury trials, as opposed to trial by judge. They testified that title VII of the Civil Rights Act does not provide such mechanisms and argued that age discrimination cases should not be treated differently.

The right to a jury trial was established by the Supreme Court in 1978. The court ruled in the *Lorillard* case that Congress had intended to include the right to a jury in the ADEA, since the ADEA was patterned after the Fair Labor Standards Act (FLSA), which allowed jury trials. The 1978 amendments to the ADEA reaffirmed congressional support for jury trials in ADEA actions. In general, no documented evidence has indicated that older plaintiffs prevail more frequently with juries than with judges under the ADEA.

Regarding the assertion that aging plaintiffs receive unreasonably large damage awards in ADEA cases, plaintiffs' attorneys argued that the remedies available under the ADEA are the same as remedies available under the FLSA. The FLSA provides that employers who violate its provisions shall be liable for unpaid minimum wages, unpaid overtime compensation, and an equal amount as liquidated (double) damages for willful violations. Under all other circumstances the plaintiff is allowed only back pay. Employers have the right of remitter to ask the judge to reduce the amount of a jury's damage award, under a judge's award companies can file only a general appeal. Attorneys for the plaintiffs state that this provision affords employers an extra layer of protection to reduce the amount of an award. The right of remitter, guaranteed by the Constitution, dispels the notion that a jury's action goes unchecked by the law.

Colleges and universities testified in favor of maintaining the mandatory retirement age of 70 for tenured faculty. They cite the following points in support of mandatory retirement for tenured faculty:

—According to DOL, the salaries of faculty nearing retirement are about twice those of newly hired faculty. Prohibiting mandatory retirement might exacerbate the financial problems colleges and universities are facing.

—Because of fewer numbers in the traditional college age group, eliminating mandatory retirement may mean fewer opportunities to hire new faculty.

—Prohibiting mandatory retirement may make it more difficult for higher education institutions to employ more women and minorities as faculty members.

—Tenure protects academic freedom by prohibiting dismissals except under specified conditions. Removal of mandatory retirement would place great strain on the principle of tenure, since individual determinations as to continued employment would be practically impossible under current tenure practices.

During these hearings, representatives for the administration stated that it was no longer supporting a simple removal of the age 70 limit from the ADEA. According to DOL, the President could only support extending job protections to workers over 70 who have jobs; those who were seeking jobs or who deserved promotions would be unprotected by the President's proposal. This proposal met with vigorous opposition from all major aging organizations and Members of Congress.

Chairman Heinz was disturbed by the administration's apparent shift and wrote to the President, stating:

> In my judgment, the statutory abolition of mandatory retirement simply by eliminating the age 70 cap would present no burden to any fairly run business * * * Since only 70 percent of the work force works in firms large enough to be covered by the ADEA, and since the Federal Government, as well as eight States, now prohibit age discrimination for those over 70, enactment of Federal legislation to eliminate the age 70 cap would result in an increase of no more than 2 percent in the total population covered by the act. This increase clearly would not have any measurable impact on the incidence of age discrimination litigation.

The administration proposal was not introduced in the 97th Congress.

At the end of the 2d session of the 97th Congress, S. 2617 remained in the Labor Subcommittee and H.R. 6576 remained in the Subcommittee on Employment Opportunities. Senator Heinz stated his intentions to reintroduce the measure at the start of the 98th Congress.

Senator Quayle introduced S. 2844, on August 16, 1982. Among other provisions, the bill would amend the ADEA to:

—Amends present law to remove age cap on protection of private sector employees.

—Deletes reference to FLSA; creates its own schemes which parallel title VII.

—Jury trial provision is deleted.

—Liquidated damages are not available.

—Allows compulsory retirement of any employee 65 years of age and serving under a contract of unlimited tenure at an institution of higher education (exemption would take effect retroactively on July 1, 1982).

At the end of the 97th session, the bill was in the Committee on Labor and Human Resources.

Part IV

HEALTH

HEALTH STATUS OF THE ELDERLY

The majority of Americans of all ages generally view themselves as being in good health. According to a 1979 survey by the National Center for Health Statistics, 89 percent of persons under 65, and 68 percent of persons 65 and older, rated their health as either good or excellent. There are, however, important differences existing among races and income groups. Although 69 percent of white persons 65 and older rated their health as good or excellent, a smaller percentage (54 percent) of blacks and (65 percent) of Hispanics did so. In addition, while 77 percent of persons aged 65 or older with incomes of $15,000 or more rated their health favorably, only 61 percent of persons with incomes $7,000 or less did the same.

MORTALITY TRENDS

More people are living longer than ever before in our history. Death rates for older persons, as for the population as a whole, have declined dramatically since 1950. The decade of the 1970's witnessed an accelerated decline in overall death rates. Although the reductions occurred among virtually all age groups in the population—both sexes, and all races—the decline for females has been greater than for males, as have the rates for blacks and other races compared with whites.

The decline in death rates has been particularly striking in the upper age groups. Between 1950 and 1978, annual death rates for women 85 and older declined by nearly one-third. Death rates for men 85 and older declined by about 20 percent. These decreases in mortality have been primarily due to declining death rates for heart disease and stroke. Rates for cancer deaths, on the other hand, have been rising. Heart disease remains the major cause of death among persons 65 and older, however, accounting for over 40 percent of deaths in the 65 to 84 age group and almost 50 percent of deaths for those over the age of 85.

Although the declining death rates have not significantly raised the limits of longevity, they have resulted in a substantial increase in the number of persons reaching the age of 75 and over. Should declining death rates for the elderly continue at the 1970 rate, it is likely that the number of persons aged 75 and older by the year 2000 will exceed current projections.

CHRONIC CONDITIONS

The likelihood of developing a chronic illness increases dramatically with age. Most older persons have at least one chronic condition (over 80 percent according to a 1979 National Center for Health Statistics Survey) and multiple chronic conditions are a common occurrence. In 1979, the most frequently reported chronic conditions in persons 65 and older were arthritis (44 percent), hypertension (39 percent), heart conditions (27 percent), visual impairments (12 percent), and diabetes (8 percent).

In general, however, most older persons are capable of living independently despite these chronic conditions. According to the National Center for Health Statistics (NCHS), fewer than one in six older persons said they could no longer carry on normal activities because of chronic illness. Although the need for help with basic activities of daily living—such as bathing, dressing, eating, and toileting—increases with advancing age, the vast majority of individuals continue to be able to perform these activities of daily living independently.

USE OF HEALTH CARE SERVICES

The elderly do use health care services at a significantly greater rate than the rest of the population. For example, persons over 65 use hospitals at 2.8 times the rate of those under 65, and their hospital length of stay is 1.75 times as long. The number of physicians visits also increases with age. Persons under 65 average 2.4 visits per year, while persons over 65 average 4.3 visits per year.

Not all persons over 65 use all health services each year, however. According to data from the 1981 Health Interview Survey, only 18 percent of persons over the age of 65 were hospitalized in the previous year. And, 14 percent of persons over 65 did not visit a physician in that year. Use of services covered by medicare further demonstrates the difference in service use. According to the Health Care Financing Administration, 9 percent of medicare beneficiaries over 65 accounted for over 70 percent of the medicare dollars spent in calendar year 1979. Over 40 percent of the over-65 medicare beneficiary population received no medicare reimbursements at all.[1]

In addition, the patterns for service use by age for those services that are not covered by medicare contrast sharply with the hospital and physicians statistics cited above. For example, persons 65 and older have fewer dental visits per year than those under 65 (1.4 versus 1.7). Forty-four percent of persons aged 65 and older have not seen a dentist in at least 5 or more years, compared with 20 percent of all persons under 65. Yet, health surveys reveal that about 60 percent of all persons aged 65 to 74 have dental problems that go untreated. The same decreased pattern of utilization holds for mental health services, which are only minimally covered by medicare. Although older persons experience significant symptoms of mental illness about the same rate as the total population (15 to

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[1] This data covers a 5-percent sample of medicare enrollees for calendar year 1979 and includes bills for services in calendar year 1979 which were recorded in HCFA's central files by December 1980.

25 percent), they use mental health services at only about half the rate of the general population.

USE OF NURSING HOME SERVICES

The nursing home population has increased rapidly in the past two decades. In 1963, there were 505,000 individuals residing in nursing homes. By 1980, the number has grown to at least 1.3 million. Ninety percent of nursing home residents are 65 and older. Although this is less than 5 percent of the total U.S. population over 65, the likelihood of spending part of one's life in a nursing home increases with age. According to NCHS, only one out of every 100 persons in the 65 to 74 age group is in a nursing home on any given day. However, this number increases to seven out of 100 persons in the 74 to 84 age group and more than one out of every five persons in the 85-plus population.

A number of factors have contributed to the tremendous increase in the nursing home population between 1963 and 1980 including: (1) Growth in the numbers of elderly, especially those over 75; (2) rapid "deinstitutionalization" of residents from mental institutions; (3) the nature of the health care reimbursement system which encourages institutional care; and (4) the lack of support of government or private insurance to cover community-based alternatives. Assuming current trends, nursing home utilization is predicted to be the fastest growing segment of the health care system in the next two decades.

HEALTH CARE EXPENDITURES

Following record increases of 15.8 percent in 1980 and 15.1 percent in 1981, the rate of growth in total health care expenditures declined in 1982 to an estimated 12 percent. However, growth in health care costs continued to outpace the rest of the economy, growing at twice the rate of inflation. Hospital costs alone increased at three times the rate of inflation.

Medicare expenditures increased 18.7 percent from fiscal year 1981 to 1982. Medicare hospital costs, which account for over two-thirds of the dollars medicare spends for personal health care, are fueling medicare's growth. Rapidly rising hospital costs are also the major reason for the serious financing problems that medicare's hospital insurance trust fund will be facing as early as 1986–88. The Congressional Budget Office has estimated that only 2 percent of the projected average annual 13.2 percent growth in hospital reimbursements from calendar years 1984 to 1995 will be due to the aging of the population.

HEALTH CARE COSTS FOR THE ELDERLY

Medicare's share of total personal health expenditures for those age 65 and over has increased over time, and is now 45.2 percent. However, health care expenditures for the elderly not paid by medicare have also been increasing over the years between 1970 to 1981 with respect to income (from 16.8 to 19.9 percent). The 1981 health care expenditures net of medicare now consume almost the same share of the elderly's average per capita income that health care costs consumed in 1965, prior to medicare (20.4 percent).

Medicare's share of hospital expenses was 74 percent in 1981, and medicare's hospital benefit is largely responsible for the strength of medicare's performance. Medicare pays a considerably smaller portion of physicians services; and its share of charges has declined slightly in the last few years, from 56 percent in 1978 to an estimated 54 percent in 1981. In addition, there are many services such as outpatient drugs, dental services, eyeglasses, etc., that medicare does not cover.

The gap between expenditures and medicare coverage is not all absorbed by the beneficiary. Private insurance pays for about 6.6 percent of the costs, and medicaid pays for another 14 percent. However, the majority of private supplemental insurance is primarily designed to cover medicare deductibles and coinsurance amounts; and the great majority of medicaid expenditures for the elderly is for the small percentage of the population using long-term care.

The Health Care Financing Administration estimates that the elderly were responsible for about 29.1 percent of their total personal health care expenditures in 1981. Therefore, direct out-of-pocket payments are the major source of payment for health expenditures not paid by medicare. In 1981, direct per capita out-of-pocket expenditures by the elderly were $914, excluding premiums for medicare part B and supplemental insurance.

1982 FEDERAL ACTIONS IN HEALTH FOR THE ELDERLY

Health programs continued to be a target for budgetary reductions in 1982, particularly the Federal health entitlement programs—medicare and medicaid. Medicare bore the brunt of Federal savings, most of which were achieved through changes in hospital and hospital-based physician reimbursement. In addition, Congress also took steps in 1982, for the first time, toward systemic reforms in the medicare program. Several other key public health programs, including community health centers, received additional funding as Congress determined that budget cuts enacted for these programs in 1981 may have gone too far.

Chapter 13

FEDERAL HEALTH CARE PROGRAMS

A. HEALTH CARE EXPENDITURES

Following record increases of 15.8 percent in 1980 and 15.1 percent in 1981,[1] total health care expenditures declined in terms of rate of increase in 1982 to an estimated 12 percent, increasing from $287 billion in 1981 to an estimated $321.4 billion in 1982. The rate of increase in costs declined in 1982 for all health care services largely due to the decline in the rate of inflation and the impact of the economic recession, along with a decrease in funds for health research. However, the growth in health care costs continued to outpace the rest of the economy. Although the 1982 12-percent increase is below the 13.9-percent average growth rate between 1976 to 1981, health care continues to consume an ever larger percentage of the gross national product, growing from 9.8 percent in 1981 to 10.4 percent in 1982. In 1982, health care expenditures grew over two times as fast as the rate of inflation. A description of where our national health dollar comes from and where it goes can be seen in charts 1 and 1A and table 1 below.

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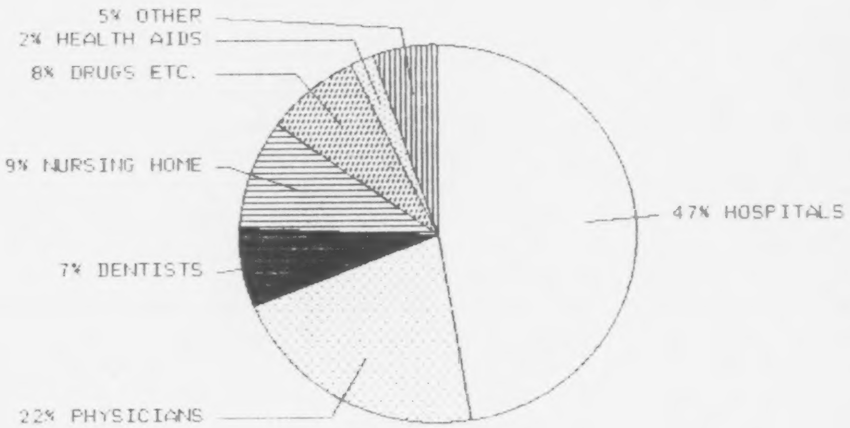
[1] U.S. Dept. of Health and Human Services. Health Care Financing Administration. Office of Research and Demonstrations. HCFA Pub. No. 03146, September 1982.

CHART 1

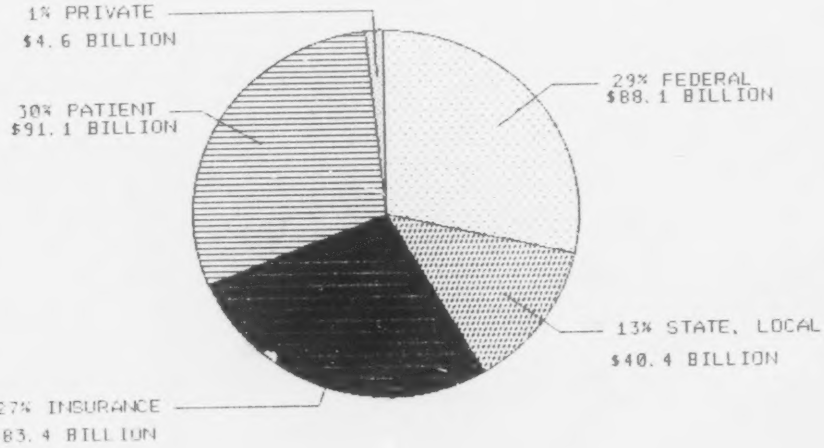
PROJECTIONS OF NATIONAL HEALTH EXPENDITURES BY TYPE OF EXPENDITURE, 1982



SOURCE: HEALTH CARE FINANCING ADMINISTRATION, UNPUBLISHED

CHART 1A

PROJECTIONS OF NATIONAL HEALTH EXPENDITURES BY CHANNEL OF PAYMENT, CALENDAR YEAR 1982



SOURCE: HEALTH CARE FINANCING ADMINISTRATION, UNPUBLISHED

TABLE 1.—PROJECTIONS OF NATIONAL HEALTH EXPENDITURES BY TYPE OF EXPENDITURE AND BY CHANNEL OF PAYMENT, CALENDAR YEAR 1982 [1]

[In billions]

	Total	Private					Public		
		Total	Consumer			Other	Total	Federal	State and local
			Total	Patient direct	Health insurance				
Total	$321.4	$185.1	$174.6	$91.1	$83.4	$10.6	$136.3	$93.5	$42.8
Health services and supplies	307.7	179.2	174.6	91.1	83.4	4.6	128.5	88.1	40.4
Personal health care	287.0	170.8	166.8	91.1	75.6	4.0	116.2	84.2	32.0
Hospital care	135.9	63.0	61.0	15.9	45.1	2.0	72.9	55.1	17.8
Physicians' services	61.8	44.6	44.6	23.5	21.0	0	17.2	13.5	3.6
Dentists' services	19.5	18.7	18.7	13.7	5.0	0	.8	.4	.3
Other professional services	7.1	5.4	5.3	4.1	1.3	.1	1.7	1.3	.3
Drugs and medical sundries	22.4	20.4	20.4	17.8	2.6	0	2.0	1.0	1.0
Eyeglasses and appliances	5.5	4.7	4.7	4.4	.3	0	.8	.7	.1
Nursing home care	27.1	12.2	12.0	11.7	.3	.2	14.9	8.1	6.9
Other health services	7.8	1.7	0	0	0	1.7	6.0	4.1	1.9
Program administration and net cost of insurance	13.1	8.4	7.8	0	7.8	.6	4.7	2.6	2.1
Government public health activities	7.6	0	0	0	0	0	7.6	1.3	6.3
Research and construction of medical facilities	13.8	5.9	0	0	0	6.0	7.8	5.3	2.4
Research	5.6	.3	0	0	0	.4	5.3	4.7	.5
Construction	8.2	5.6	0	0	0	5.6	2.5	.6	1.9

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[1] This is a provisional estimate for 1982 based on partial year data available as of autumn 1982 (final estimates will be available in September 1983).

Source: Health Care Financing Administration, unpublished.

1. Personal Health Care Expenditures

Personal health care accounts for approximately nine-tenths of total health care expenditures. Spending for personal health care increased at a rate of 12.5 percent during 1982 from $255 billion in 1981 to $287 billion in 1982, significantly less than the 16.2-percent increase for 1981.

Personal health care is divided into a number of different goods and services.

(A) HOSPITAL SERVICES

Hospital services are the largest personal health care expenditure, accounting for 46.4 percent of the total. Hospital expenditures were $135.9 billion in 1982, a 16-percent increase over 1981. The 1982 rate of increase is 1.5 percent less than in 1981 (17.5 percent), [2] but the decline in rate of increase for hospital services is not as great as for overall personal health care expenditures.

Input price inflation accounted for over 70 percent of the growth of expenditures, according to a 1981 analysis of the Health Care Financing Administration. Increased use of hospitals accounted for only 12 percent of the increase. The remaining residual increase is largely due to new technology and increases in intensity of care, i.e., increased services per person.[3] The Federal Government funded 41.3 percent of spending for hospital care in 1981; private health insurance paid for 33.4 percent; State and local governments paid for 13.1 percent; and patients paid slightly over 10 percent of the cost of hospital care directly out-of-pocket.[4]

(B) PHYSICIANS SERVICES

Physicians services accounted for 21.6 percent of all personal health care expenditures in 1982, for a total of $61.8 billion, a 12.7-percent increase from the $55 billion spent in 1981. This rate of growth is 4.2 percent less than the 16.9-percent rate of growth in 1981.[5] Public funds accounted for over one-quarter of the total spending for physician services as of 1981. Private insurance and direct physician payments split the remainder almost evenly.[6]

Price inflation and intensity of services are responsible for most of the growth in expenditures. The decline in the rate of increase of expenditures in 1982 is largely attributable to decreased inflation and possible decreased utilization. Over the past decade, the number of office visits has not had much effect on the growth of spending because total volume and per capita numbers have changed very little. According to the National Center for Health Statistics (NCHS) Health Interview Survey, visits to physicians by the noninstitutionalized population remained relatively constant between 1971 to 1980, at around 1 billion visits per year. However, the intensity of services has increased. For example, in the last 10 years, the number of surgical operations grew from 7 per 100 persons to 8½. And, the volume of tests in independent clinical labs has been increasing at a 15-percent annual rate in recent years.[7]

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[2] Ibid., p. 7.
[3] Ibid., pp. 7–8.
[4] Ibid., p. 7.
[5] Ibid., p. 7.
[6] Ibid., p. 7.

(C) NURSING HOME CARE

In 1982, expenditures for nursing home care were $27.1 billion, a 12.9-percent increase from the $24 billion spent in 1981.[8] This is a 4.5-percent decline from the 17.4-percent increase in expenditures in 1981. Nursing home expenditures in 1982 equaled 9.4 percent of all personal health care expenditures. Public programs pay for a little more than one-half of the total nursing home bill, and patients pay for most of the rest directly out-of-pocket. Of public expenditures, medicare paid only 3 percent, while medicaid paid for 89 percent.[9]

Excluding intermediate care facilities for the mentally retarded, spending for nursing home care doubled between 1976 and 1981, from $11 to $22 billion. Input prices during that same period increased at an annual rate of 9 percent, while nursing home days of care increased only 3 percent annually. Input prices grew even faster in 1981 at 10 percent, but the growth in the number of days of care increased more slowly than the previous 5-year average.[10]

The major factors in the growth of nursing home spending include rapid expansion of medicaid-funded intermediate care facilities for the mentally retarded, as well as the growth in prices and days of care in other types of nursing home settings. As with all health services, part of the decline in rate of growth of expenditures in 1982 is due to the declining general rate of inflation. However, a substantial portion in the decline of the rate of expenditure growth for nursing homes is also probably the result of Federal and State budgetary cutbacks in medicaid expenditures in 1981.

(D) DRUGS AND MEDICAL SUNDRIES

Outpatient prescription and over-the-counter drugs and medical sundries account for about 7.8 percent of total personal health care spending in 1982, a substantial decrease from this category's 12-percent share of personal health care spending in 1965.[11] In 1982, drugs and medical sundries accounted for $22.4 billion, an increase of 6.6 percent over the $21 billion spent in 1981. This is significantly lower than the average annual increase of 9.3 percent between 1965 to 1981. However, due to price inflation, drug spending has been increasing faster than the general rate of increase in growth for this category.[12]

(E) OTHER PERSONAL HEALTH CARE GOODS AND SERVICES

Other personal health care goods and services include dentists services and services of other health professionals (including most home health agencies), eyeglasses, and orthopedic appliances. Expenditures in this category were $39.9 billion in 1982, 13.9 percent of personal health care spending. Expenditures increased 9 percent in 1982 compared to 13.7 percent in 1981.[13] The principal expenditure in this category is dental services which was $19.5 billion in 1982.

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[7] Ibid., p. 7.

[8] Ibid., p. 8.

[9] U.S. Dept. of Health and Human Services. Health Care Financing Administration. Unpublished data.

[10] U.S. Dept. of Health and Human Services. Health Care Financing Administration. Office of Research and Demonstrations. HCFA Pub. No. 03146, September 1982. p. 8.

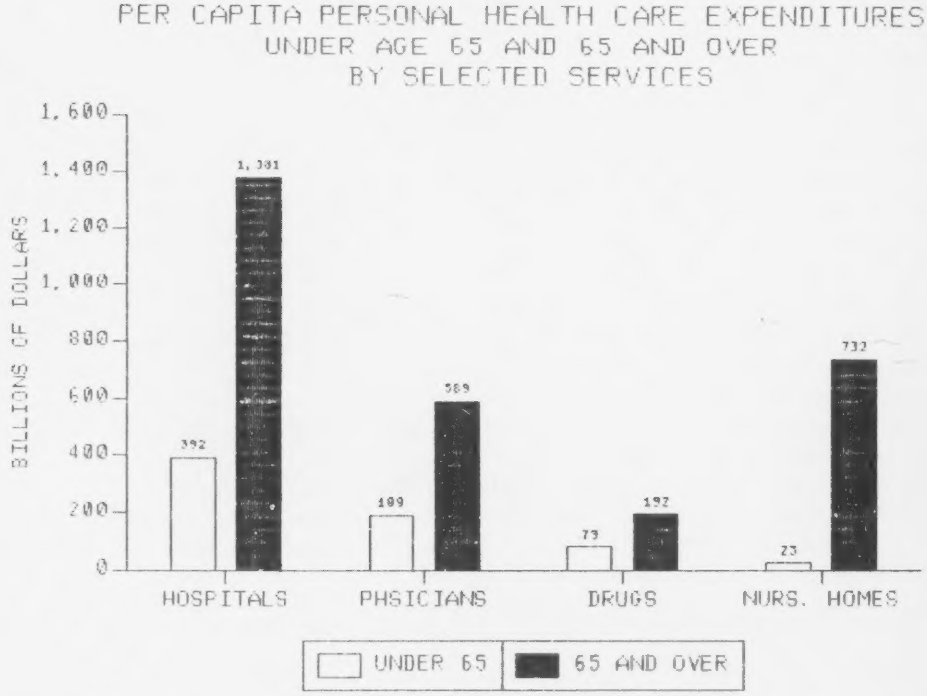
[11] Ibid., p. 9.

[12] Ibid., p. 9.

2. Personal Health Care Expenditures by Age Group

The over-age-65 population consumes a larger share of health-care services than the younger segment of the population. In 1981, the latest year that spending estimates by age group are available, those over age 65 accounted for 11 percent of the population and 33 percent of total personal health care expenditures. 1981 per capita personal health care expenditures were estimated to be $828 for those under age 65 and $3,140 for those age 65 and older. Excluding nursing home care, estimated 1981 per capita personal health care expenditures for those over age 65 would still be three times that of those under age 65. (See chart 2 and table 2 below.)

CHART 2



PER CAPITA PERSONAL HEALTH CARE EXPENDITURES
UNDER AGE 65 AND 65 AND OVER
BY SELECTED SERVICES

SOURCE: HEALTH CARE FINANCING ADMINISTRATION, UNPUBLISHED

TABLE 2.—PERSONAL HEALTH CARE EXPENDITURES: ALL AGES, UNDER AGE 65, AGE 65 AND OVER, TOTAL AND PER CAPITA AMOUNTS BY TYPE OF EXPENDITURE AND BY CHANNEL OF PAYMENT, CALENDAR YEAR 1981 [1]

Type of expenditure	All ages			Under age 65			Age 65 and over		
	Total	Private	Public	Total	Private	Public	Total	Private	Public
	Aggregate amount (in billions)								
Total	$255.0	$152.2	$102.9	$171.8	$122.1	$49.7	$83.2	$30.0	$53.2
Hospital care	118.0	53.9	64.1	81.4	48.6	32.8	36.6	5.3	31.3
Physicians' services	54.8	39.8	15.0	39.2	33.2	6.0	15.6	6.6	9.0
Dentists' services	17.3	16.6	.7	14.9	14.2	.6	2.4	2.3	.1
Other professional services	6.4	5.0	1.4	4.4	3.8	.6	2.0	1.2	.8
Drugs and medical sundries	21.4	19.5	1.9	16.3	15.3	1.0	5.1	4.2	.9
Eyeglasses and appliances	5.7	5.1	.7	4.7	4.5	.3	1.0	.6	.4
Nursing home care	24.2	10.6	13.6	4.8	1.0	3.8	19.4	9.6	9.8
Other health services	7.2	1.6	5.8	6.2	1.5	4.9	1.0	.1	.9
	Per capita amount								
Total	1,090	650	440	828	588	240	3,140	1,132	2,008
Hospital care	504	230	274	392	234	158	1,381	200	1,181
Physicians' services	234	170	64	189	160	29	589	249	340
Dentists' services	74	71	3	72	69	3	91	87	4
Other professional services	27	21	6	21	18	3	75	45	30
Drugs and medical sundries	91	83	8	79	74	5	192	158	34
Eyeglasses and appliances	24	21	3	23	22	1	38	23	15
Nursing home care	103	45	58	23	5	18	732	362	370
Other health services	31	7	24	30	7	23	38	4	34

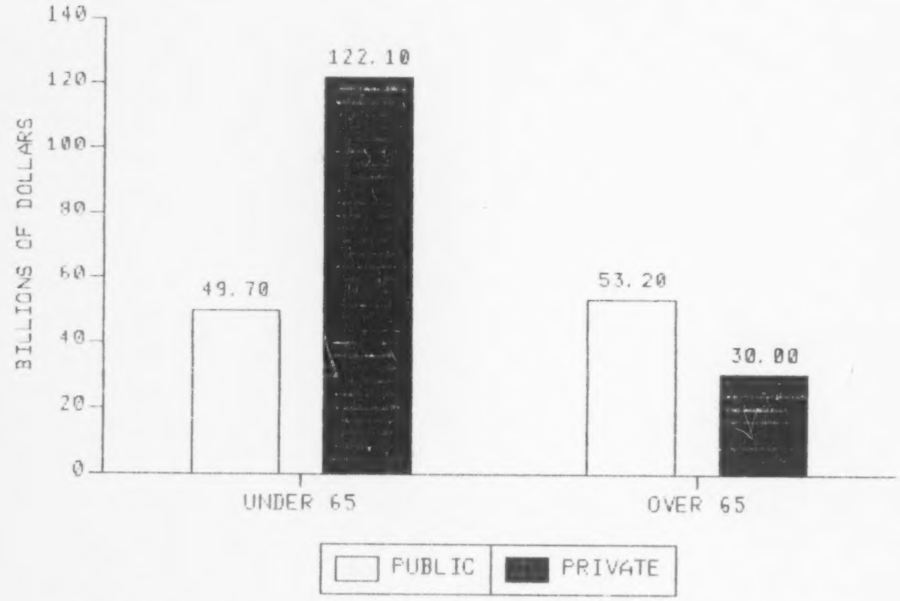
[1] This is a provisional estimate for 1981. Final estimates will be available in June 1983.

Source: Health Care Financing Administration, unpublished.

As can be seen by the chart below, the public/private ratio of source of payment for those under age 65 and those over 65 is almost exactly reversed. This difference is, of course, mainly attributable to the dominance of private, employer-paid, insurance for those under 65 and medicare for those over 65.

CHART 3

AGGREGATE PERSONAL HEALTH CARE EXPENDITURES
UNDER AGE 65 AND 65 AND OVER, CALENDAR YEAR 1981



SOURCE: HEALTH CARE FINANCING ADMINISTRATION, UNPUBLISHED

The following table, however, shows that public payments are the major source of payment for those over 65 for hospital services, but not necessarily other services. For example, 49.5 percent of nursing home services expenditures are paid for by private sources, as are the great majority of expenditures for dentists' services and outpatient drugs.

TABLE 3.—AMOUNT OF PERSONAL HEALTH CARE EXPENDITURES FOR PERSONS AGE 65 AND OVER BY TYPE OF EXPENDITURE AND CHANNEL OF PAYMENT FOR CALENDAR YEAR 1981 [1]

[In billions]

Type of expenditure	Total	Private	Public			
			Total	Medicare	Medicaid	Other public
Total	$83.2	$30.0	$53.2	$37.7	$11.4	$4.1
Hospital care	36.6	5.3	31.3	27.1	1.3	2.9
Physicians' services	15.6	6.6	9.0	8.5	.4	.1
Dentists' services	2.4	2.3	.1		.1	(2)
Other professional services	2.0	1.2	.8	.7	.1	(2)
Drugs and medical sundries	5.1	4.2	.9		.8	.1
Eyeglasses and appliances	1.0	.6	.4	.4		(2)
Nursing home care	19.4	9.6	9.8	.4	8.7	.7
Other health services	1.0	.1	.9	.5	.1	.3

[1] This is a provisional estimate. Final estimates will be available in June 1983.

[2] Less than $50 million.

Source: Health Care Financing Administration, unpublished.

The major categories of personal health care expenditures for those over age 65 are as follows:

(A) HOSPITAL CARE

Personal health care expenditures for hospital care for those age 65 and over equaled $36.6 billion in 1981, 42 percent of total expenditures, 85.5 percent of which was paid for by public sources of funds. Medicare alone paid for 74 percent of the total hospital expenditures for those over the age of 65.

In 1980, those over age 65, representing 11 percent of the population, used 34.1 percent of short-stay hospital days. The under age 65 population, 88.9 percent of the total population, used 66 percent of short-stay hospital days. The over 75 population, only 4.4 percent of the population, uses 9.1 percent of short-stay hospital days.[14] Data from the 1981 National Hospital Discharge Survey shows the increase in use and length of stay of hospital services for older persons.

TABLE 4.—DISCHARGE RATES (PER 10,000) AND AVERAGE LENGTH OF STAY (DAYS) IN SHORT-STAY, NON-FEDERAL HOSPITALS, BY AGE AND SEX, UNITED STATES, 1981

	Total	Male	Female
All ages:			
Rate per 10,000 civilian population	1,693.1		
Average length of stay (days)	7.2		
Under 65 years:			
Rate per 10,000 civilian population	1,397.0		
Average length of stay (days)	6.0		
65 to 74:			
Number of discharges (alive or dead)	5,243,905	2,509,567	2,734,338
Rate per 10,000 civilian population	3,299.5	3,640.7	3,038.2
Average length of stay (days)	9.9	9.8	9.9
75 to 84:			
Number of discharges (alive or dead)	3,785,444	1,531,572	2,253,872
Rate per 10,000 civilian population	4,732.4	5,172.5	4,474.6
Average length of stay (days)	10.8	10.7	10.9
85 plus:			
Number of discharges (alive or dead)	1,378,991	465,883	913,108
Rate per 10,000 civilian population	5,838.2	6,598.9	5,513.9
Average length of stay (days)	11.8	11.4	12.1

Source: National Center for Health Statistics, 1981 National Hospital Discharge Survey.

The aging of the population will result in an older hospital patient population which indicates increased hospital expenses since the elderly tend to need more intensity of care. In addition, because older persons tend to use more hospital days, particularly those 75 and older, the growth in hospital days used will outstrip the growth in general population by 20 percent by the year 2080.

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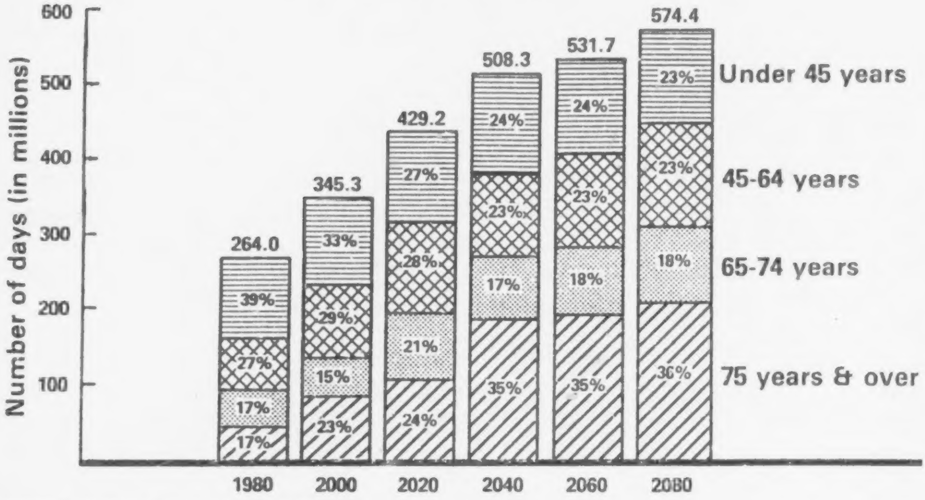
[14] U.S. Dept. of Health and Human Services. Public Health Service. National Center For Health Statistics. Tables And Charts For Living Longer In The United States. November 1982. pp. 19, 25.

CHART 4

Number and distribution of short-stay hospital days by age



SOURCE: National Center for Health Statistics

(B) PHYSICIANS SERVICES

Total personal health care expenditures for physician services for those over 65 in 1981 equaled $15.6 billion, or 18.8 percent of total expenditures, 57.3 percent of which was paid for by public sources. Medicare alone paid for 54.5 percent of total physician expenditures for those age 65 and over.

The disparity in use of physician visits is not as great as the disparity in short-stay hospital use between the over and under 65 population groups. Those under 65, 88.9 percent of the population, accounted for 84.9 percent of physician visits in 1980, while those over age 65, 11 percent of the population, accounted for 15 percent of the visits.[15]

Data from the National Ambulatory Medical Care Survey on number of visits per person to private-office-based physicians in the United States for 1980–81 show average visits per person by age to be: (1) Under 65, 2.4 visits; (2) 65 to 74, 4.1 visits; (3) 75 to 84, 4.7 visits; (4) 85 and over, 4.4 visits.[16] It is clear, however, from the projections in chart 5 below that older patients will account for an increasing percentage of physicians caseloads which means that medicare will continue to pay an increasing share of physician expenditures. And, physician expenditures due to increased intensity of care will continue to grow. Allowed charges for physicians services in hospitals are accounting for an increasing percentage of all allowed physicians charges under medicare's part B program. Between 1971 and 1977, charges for physicians services to the aged beneficiaries on an inpatient basis increased gradually from 57 to 61 percent of all allowed physicians charges—a trend which probably will continue.[17]

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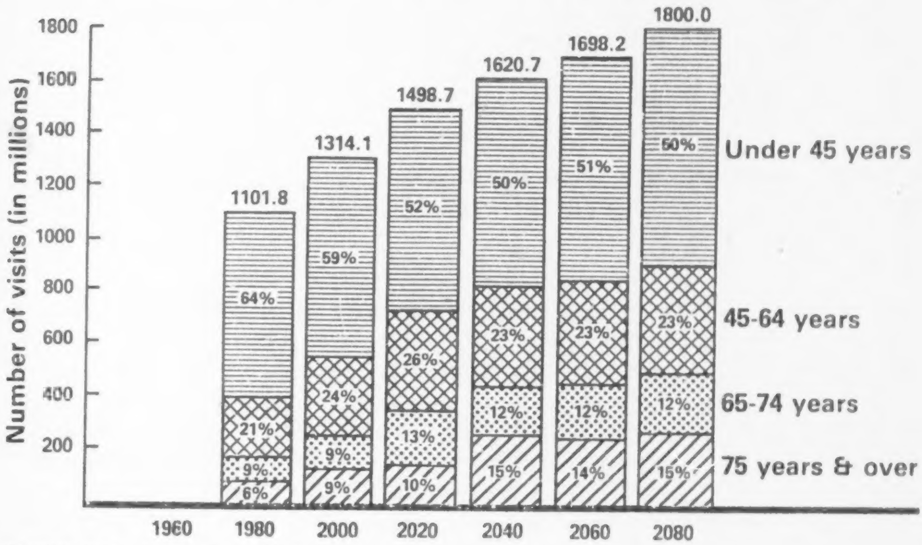
[15] Ibid., pp. 19, 24.
[16] National Center For Health Care Statistics. Unpublished data.

CHART 5

Number and distribution of physician visits



SOURCE: National Center for Health Statistics

(C) NURSING HOME CARE

Total personal health care expenditures for nursing home service for those over age 65 in 1981 equaled $19.4 billion or 23.3 percent of total expenditures, 50.5 percent of which was paid for by public sources. Medicare alone only paid for 2 percent of total nursing home expenditures for those over age 65. Medicaid, which accounted for 87 percent of public nursing home expenditures for those over age 65, paid 44.7 percent of total nursing home expenditures. Of the 49.5 percent of nursing home expenditures paid for by private sources, almost all was paid directly out-of-pocket due to a lack of private insurance coverage of nursing home services. Eighty percent of all nursing home expenditures are for those age 65 and over.

(D) OTHER PROFESSIONAL SERVICES

Dentists services and other professional services, which include home health, accounted for $4.4 billion or 5.3 percent of total personal health care expenditures for those age 65 and over, 20 percent of which was paid for by public sources. Medicare provides no coverage for dental services, 96 percent of which were paid for solely by private funds. Expenditures for those age 65 and over for dental services accounted for 13 percent of total personal health care expenditures.

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[17] U.S. Dept. of Health and Human Services. Health Care Financing Administration. Office of Research and Demonstrations. HCFA Pub. No. 03146, September 1982. p. 12.

(E) EYEGLASSES AND APPLIANCES

Total personal health care expenditures for those age 65 and over for eyeglasses and other appliances were $1 billion in 1981, or 1.2 percent of total expenditures, 40 percent of which were covered by medicare alone with negligible contributions from other public sources of payments. Most of medicare's coverage was for medical appliances since medicare provides no coverage for corrective eyeglasses.

B. FEDERAL PROGRAMS PROVIDING HEALTH COVERAGE FOR THE ELDERLY

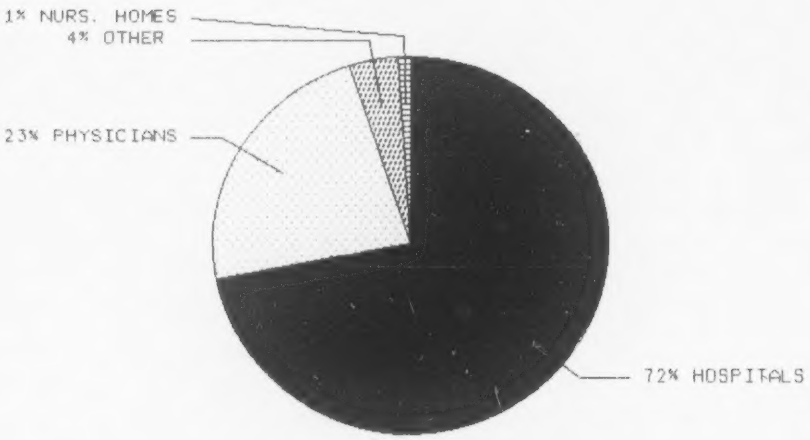
1. MEDICARE

Medicare was enacted in 1965 as a means of providing protection for the elderly from the costs of health care. There is no question that medicare has, in fact, provided this protection to many older Americans and, in doing so, has become the single largest purchaser of health care in the world. From a program spending $3.2 billion in 1967, it has grown to an estimated $52 billion in calendar year 1982, or $50.42 billion in fiscal year 1982.

Medicare is comprised of two programs—hospital insurance (HI), which pays for inpatient hospital care, stays in skilled nursing facilities, and home health services, and supplementary medical insurance (SMI), which pays for all other services covered by medicare (principally physician services). In 1982, 26 million aged and 3 million disabled participated in the medicare program. Chart 6 shows where the medicare dollar for personal health care was spent in 1982.

CHART 6

WHERE THE MEDICARE DOLLAR GOES - 1982



SOURCE: HEALTH CARE FINANCING ADMINISTRATION; UNPUBLISHED

Medicare expenditures increased over 20 percent in calendar years 1980 and 1981.[18] In calendar year 1982, due to medicare savings enacted in 1981, and a decline in rates of growth of health expenditures in general, medicare spending is estimated to increase 16 percent. Although this rate of growth is less than the past 2 years, it still is more than 2½ times the rate of inflation, and 3.5 percent more than the rate of increase of personal health care expenditures for all ages.

The concern over reducing Federal deficits and the large share of outlays that medicare represents has focused Federal attention on reducing medicare's costs. Serious concerns over the revenue shortfalls the HI trust may face as early as the end of this decade have increased pressures to control medicare expenditures. Congress enacted legislation in the Omnibus Budget Reconciliation Act of 1981 to reduce medicare outlays in fiscal year 1982 by $1.4 billion. Medicare provisions enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) will save an estimated $2.7 billion in fiscal year 1983. Because of rising costs, there has been no serious consideration of any legislative proposals to address the gaps in medicare coverage which still remain, such as lack of coverage for long-term care, preventive services, outpatient drugs, basic dental services, and eyeglasses.

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[18] Ibid., p. 11.

(A) HOW MUCH PROTECTION DOES MEDICARE PROVIDE?

(1) Medicare's Share of Personal Health Care Costs

Due to continued pressures for budget reductions, the Senate Special Committee on Aging reviewed medicare's performance in "Health Care Expenditures for the Elderly: How Much Protection Does Medicare Provide." Based on Health Care Financing data for health expenditures by age, the committee found that medicare has not only kept pace with personal health expenditures, it has slightly increased its share over time. In 1976, medicare paid for 44.1 percent of total personal health expenditures for those age 65 and over. In 1981, this share had increased to 45.2 percent.

Despite medicare's increasing share of costs however, the elderly person's per capita responsibility for his or her total health care bill is also growing. Health care expenditures for the elderly not paid by medicare have been increasing over the years between 1970 to 1978 with respect to income (from 16.8 to 18.4 percent). In 1981, health care expenditures net of medicare equaled 19.9 percent of the average per capita income for a person over age 65, almost the same share of income that health care costs consumed in 1965, prior to medicare (20.4 percent).

TABLE 5.—TOTAL PER CAPITA PERSONAL HEALTH CARE EXPENDITURES NOT PAID BY MEDICARE AS A PERCENT OF TOTAL INCOME FOR THE ELDERLY

Year	Total per capita expenditures	Medicare per capita expenditures	Expenditures net of medicare	Personal income	Percent
1965	$472		$472	$2,137	20.4
1970	854	$351	503	2,991	16.8
1976	1,624	703	921	5,147	17.9
1977	1,821	805	1,016	5,592	18.2
1978	2,026	893	1,133	6,161	18.4
1981 [1]	3,140	1,423	1,717	8,630	19.9

[1] Estimates supplied by the Health Care Financing Administration.

Source: Fisher, Charles R. Differences by Age Groups in Health Care Spending. Health Care Review, v. 1, No. 4, Spring 1980.

Hospital expenditures represent the single largest component of the medicare program, over 70 percent of the dollars medicare spends for personal health care. Medicare's share of hospital expenditures has remained about the same in 1981 (74 percent) as 1978 (74.6 percent).[19] The structure of the hospital benefit which imposes a deductible equal to the average hospital cost of 1 day of care ($260 in 1982), but no copayments until after 60 days of care, is largely responsible for the strength of medicare's performance. Since only 4 percent of medicare beneficiaries use more than 60 days, total hospital out-of-pocket expenditures are relatively small.

Medicare's share of charges for physician services was 56 percent in 1978, and an estimated 54 percent in 1981.[20] Medicare pays a considerably smaller portion of physician services than it does of hospital services. There are two reasons why medicare coverage of physician services has not been as effective as that of hospital services. First, medicare's 20 percent coinsurance on physician services means that, under the best of circumstances, medicare would only pay 80 percent of costs (less the annual $75 deductible). Second, on an unassigned claim, medicare may pay less than 80 percent of actual charges if the amount billed is deemed not to be "reasonable." Reasonable charges in 1980 constituted 77.5 percent of actual physician charges. According to actuarial estimates, this percentage declined to 75 percent in 1981, and will have declined further to 72.4 percent in 1982. Medicare's payment, if reasonable charges were 72.4 percent of total costs, would equal only 58 percent of the total physician bill. The assignment rate (the percent of claims where the physician will accept medicare payment in full and not bill the beneficiary for more than the 20 percent coinsurance), has remained just above 50 percent since 1974. Thus, in almost 50 percent of the claims, beneficiaries are responsible for the difference between reasonable charges and actual cost. This difference has risen, on average, from 14.4 percent of the total amount of a claim in 1974 to 22.4 percent in 1980. The difference between reasonable charges and actual costs is seldom covered under private supplemental insurance or medicaid.

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[19] U.S. Dept. of Health and Human Services. Health Care Financing Administration. Unpublished data.

[20] Ibid.

(2) Private Payments

The total gap between expenditures and coverage is not necessarily absorbed by the beneficiary, however. Over 70 percent of the elderly have some part of supplemental coverage including both private insurance and medicaid.

Private insurance's share of total personal health care expenditures for the elderly was 6.6 percent in 1977, the most recent year for which HCFA data was available. There is little evidence that this share has changed in recent years. The majority of private supplemental insurance is primarily designed to cover medicare deductibles and coinsurance amounts. Many policies also provide some coverage for hospital stays beyond the medicare 150-day lifetime limit. Therefore, while private insurance can fill some of the gaps in medicare, many service gaps, such as long-term care or outpatient drugs, remain largely uncovered.

Premium rates for supplemental coverage have been increasing over the years. A typical annual premium rate for an over-65 individual, $180 to $240 in 1965 (prior to medicare), has at least doubled in 1982 (only as a supplement to medicare). Data from Pennsylvania, for example, shows increases in premiums of over 250 percent between 1970 and 1980; and there is evidence that premiums for some Blue Cross plans might have been higher had they not been subsidized by the plans' other insurance business. Changes in the level of medicare copayments contribute to increasing supplemental insurance premium costs. Two insurance companies report that at least one-quarter of premium increases between 1981 and 1982 were a direct result of increases in the part A and part B deductibles enacted in 1981.

(3) Medicaid

While medicaid covers about 14 percent of the health care costs of the elderly, the great majority of these expenditures is for a small percentage of the population using long-term care. Because medicaid is a means-tested program for low-income individuals only, it does not provide any protection at all for most elderly. Therefore, although medicaid does fill an important gap, particularly in terms of services for the poorest elderly and for needed long-term care, its impact is limited or nonexistent for the majority of medicare beneficiaries.

(4) Direct Out-of-Pocket Payments

The elderly were responsible for about 29.1 percent of their total personal health care expenditures in 1977, a percentage which HCFA estimates holds firm for 1981. Therefore, direct out-of-pocket payments are the major source of payment for health expenditures not paid by medicare.

In 1981, total per capita expenditures for the elderly were $3,140. Medicare's share was $1,427, leaving $1,713 to be paid for by other sources. Based on the above estimate of 29.1 percent, direct per capita out-of-pocket expenditures for the elderly were $914, excluding premiums. Adding premiums for part B, $132 a year, and estimated annual premiums for supplemental insurance of $500, per capita out-of-pocket costs would amount to $1,546 a year. If one eliminates nursing home costs to more accurately reflect the average noninstitutionalized medicare beneficiary, out-of-pocket expenses including premiums in 1981 would still amount to $1,423 a year.

(B) THE HOSPITAL INSURANCE TRUST FUND

As stated earlier, medicare is comprised of two programs—hospital insurance (HI) and supplementary medical insurance (SMI). SMI, which pays for physician services principally, is financially sound, mainly due to its financing structure. SMI revenues are obtained from premiums and general revenues. Although premiums have been falling as a percentage of SMI, from 50 percent at the inception of the program to less than 25 percent in 1982, general revenue financing assures that the fund will be maintained.

In contrast, HI, which pays for inpatient hospital care, stays in skilled nursing facilities, and home health services, faces serious financial problems by the end of this decade. HI revenues are almost exclusively from a portion of the social security payroll tax. In 1985, employers and employees will each contribute 1.3 percent of covered earnings, with the rate scheduled to increase to 1.35 percent in 1985 and 1.45 percent in 1986. General revenues cannot now be used to make up any shortfall between required outlays and trust fund balances.

The financing problems of HI stem from the fact that outlays depend on required reimbursement to hospitals and other health providers, which, under current law, are growing much more rapidly than earnings to which the HI tax is applied.

Despite comfortable reserves at present, the Congressional Budget Office projects that the HI fund will be depleted by 1987 under intermediate economic assumptions and current law (table 6).

TABLE 6.—PROJECTIONS OF HOSPITAL INSURANCE TRUST FUND OUTLAYS, INCOMES, AND BALANCES

[In billions]

Calendar year	Outlays	Income [1]	Annual surplus [2]	Yearend balance
1981	$30.7	$35.7	$5.0	$18.7
1982	36.0	25.6	−10.4	8.3
1983	41.1	40.9	−0.2	8.1
1984	46.2	44.7	−1.4	6.7
1985	51.0	49.4	−1.6	5.1
1986	60.0	56.2	−3.8	1.3
1987	68.5	59.6	−8.6	−7.6
1988	77.0	63.1	−12.9	−21.6
1989	86.6	66.2	−18.1	−41.9
1990	97.4	69.1	−24.2	−70.2
1991	109.5	71.6	−31.6	−108.2
1992	123.0	73.4	−40.0	−157.8
1993	138.2	74.5	−49.7	−221.5
1994	155.4	74.9	−60.9	−301.9
1995	174.8	73.9	−73.8	−402.9

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers. In years when balances are negative, income includes negative interest, which is the amount that would be paid by the trust fund on hypothetical borrowings required to continue benefit payments. Income in 1982 reflects $12.4 billion in interfund transfers from the HI trust fund to the OASI trust fund.

[2] Excluding any negative interest.

Note.—Minus signs denote a deficit.

Source: Preliminary CBO estimates.

Deficits in the fund will grow substantially in ensuing years; and, according to the Congressional Budget Office (CBO), continued solvency of the HI trust through even 1995 will require either very substantial increases in revenues or outlay reductions that are much larger than program options currently under discussion. CBO estimates that, abstracting from reimbursement reductions authorized by Public Law 97-248, hospital costs attributable to medicare beneficiaries over the 1981-95 period are projected to increase at an average annual rate of 13.2 percent. But, covered earnings are projected to grow at a rate of only 6.8 percent. With a difference of over 6 percentage points per year between the key determinants of outlays and income, it is little wonder that serious financing problems are projected.

(C) ISSUES IN 1983

The congressional debate over how to restrain the growth in health care spending, particularly medicare, will intensify in the 98th Congress. Although a variety of spending reduction proposals will be considered, it appears certain that two types of proposals for changes in medicare will be debated in 1983—prospective payment and "competition." The administration, in response to TEFRA, has already submitted a plan to Congress to change the way that medicare pays for health care from a retrospective, cost-based system, to a prospective system. In addition, as part of their 1984 budget, the administration may offer a package of health incentive changes, i.e., competition, that it has been considering for the past 2 years.

(1) Prospective Payment

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) included a provision requiring the Secretary of Health and Human Services (HHS) to develop, in consultation with the Senate Finance and House Ways and Means Committees, a legislative proposal for medicare payment to hospitals, skilled nursing facilities, and to the extent feasible, other providers, on a prospective basis.

HHS sent a report to Congress on hospital prospective payment for medicare on December 28, 1982. The plan would establish a fixed reimbursement rate according to the type of diagnosis. In short, the medicare program would convert from an after-the-fact, cost-based reimbursement system to one that establishes rates in advance.

The proposal is similar to the hospital payment plan now in effect in the State of New Jersey. The New Jersey payment system, however, applies to all payers of hospital bills, not just medicare. The concept of prospective payment is not new. More than a dozen States have used it for a number of years to control hospital costs, especially medicaid inpatient costs.

There are several possible forms of prospective payments, ranging from limits on total hospital revenues to controls on payments per diagnosis, per day, per admission, per discharge, etc. The proposal unveiled by HHS would make hospital payments for inpatient care on the basis of the case-mix measure known as "diagnosis related groups" (DRG's). The DRG patient classification system was developed at Yale University in the early 1970's. It grouped patients into 383 categories based on information from patient discharge abstracts such as age, surgical procedures, and principal and secondary disgnoses. New Jersey used this original classification as the basis for hospital payment for several years, and now uses the 1981 version of DRG's.

Patients are grouped into 467 categories under the revised DRG system. Under the HHS proposal, medicare rates would be set for each of these 467 DRG's, and hospitals would be paid on the basis of the DRG for each patient. Certain types of cases with complications and/or surgery would receive a higher payment than cases without complications or surgery. Furthermore, this payment system would include rate adjustments for hospitals located in high- or low-wage areas. Both medical education costs and capital costs would be excluded from the basic payment rate and would be reimbursed separately.

The DRG payment plan would not apply to long-term care facilities, psychiatric, or pediatric hospitals. For health maintenance organizations (HMO's) that elect to bill medicare for each hospitalization, the HMO would be paid the DRG rate. HMO's that elect to be paid a prepaid capitated amount based on the cost of delivering care to a medicare beneficiary in the current fee-for-service system, as allowed under TEFRA, will continue to have this option. Special provisions also would be made for sole community providers so that beneficiaries in rural areas would continue to have access to hospital care.

The administration's DRG plan will be the subject of congressional hearings in the opening months of the 98th Congress. There appears to be a consensus that the medicare payment system must be changed, but Congress will look at several options.

A major issue which will be debated is whether the prospective payment system should be confined only to medicare or encompass all payers. Those supporting an all payers system, or a medicare system which allows State options to develop all payers systems, believe that an all payers system is necessary for equitable cost containment. They doubt that a medicare-only prospective payment system will cause hospitals to reduce the rate of growth of overall costs or to move to more cost-effective and efficient delivery of care. They are concerned that a medicare-only system will instead lead to hospitals shifting costs to patients with private insurance or avoiding medicare patients, particularly those with multiple medical/social problems whose care may be more costly than the medicare prospective payment will allow.

HHS and other proponents of a medicare-only prospective payment system contend that an all payers system would stifle the development of competition in the medical market. They believe that a medicare-only system can lead to the organization of competitive medical plans, so that these plans, along with other private insurers, can negotiate their own prospective rates with hospitals. They believe that a diversity of payers seeking to control costs and obtain the best rates possible for hospital care will exert more pressure on the medical system to contain costs and deliver the most appropriate level of care than a Federal/State controlled payment system.

Other issues that have been raised by the HHS prospective payment proposal include questions about basing the system on DRG's to the exclusion of any other alternatives, the potential impact on public hospitals which have a high medicare/medicaid patient population, the potential impact on hospitals which may treat more severely ill patients, and the lack of attention to the changes that might be required to monitor quality of care and provide utilization review in a shift from retrospective to prospective reimbursement. The latter issue is particularly important in light of the administration's continued proposals to eliminate professional review organizations.

Despite the above concerns and other issues raised by the major interest groups, most parties agree the payment system needs to be changed. Faced with tremendous budgetary pressures, the issue before Congress will be to develop an equitable and workable medicare payment plan to reduce, or at least control, the ever-increasing outlays for hospital care.

(2) Competition

Last year, HHS worked on developing a set of health incentive reforms designed to increase competition in the medical market and control health costs. Although President Reagan chose not to submit these proposals to Congress as part of last year's budget, continuing budgetary pressures have lead to these measures being considered again.

The "competition" proposals include increased medicare beneficiary cost-sharing, a cap on the amount of tax-excluded employer-paid health insurance that an employee may receive, and creation of a medicare voucher. Congress also considered, but did not act, on these options for medicare reform last year. The proponents of these incentive changes contend that increased medicare beneficiary cost-sharing, specifically on hospital services, will cause medicare beneficiaries and physicians to look for less costly alternatives or be increasingly selective in their use of hospital services. They believe that a cap on tax-excluded employer paid health insurance will cause consumers to choose insurance plans more carefully and increase demand for lower cost options with more initial cost-sharing.

Advocates of the medicare voucher proposals argue that such an approach, together with certain other pro-competitive initiatives, will foster greater competition in the provision of health services to medicare beneficiaries and moderate increases in health care spending for the populations served by that program. The medicare voucher plans would allow medicare beneficiaries the option of using Government-funded vouchers to purchase health insurance in the private sector.

Essentially, the "pro-competition" theorists believe that an essential element in controlling health costs is to make consumers more sensitive to insurance costs and the costs of their covered services. "Pro-competition" proponents believe market forces can effectively control the price and utilization of health care services. They contend that these market forces will occur if health care consumers are given choices from among competing benefit plans or health care arrangements, and if incentives were available for selecting the lower cost alternatives. To attract members, health care benefit plans would have to compete through a price and benefit package for their share of the market. As a result, health care spending might lessen if premium costs are reduced through greater cost-sharing on behalf of the insured, or enrollment increased in alternatives to the traditional fee-for-services system, such as HMO's. The impact to the health care system of increased cost-sharing by beneficiaries would reduce demand for services and increase the consumer's price sensitivity. The insuring plans would be pressed to hold down premiums and improve utilization controls, thereby negotiating with service providers for reduced rates. Providers also may be affected, and through this may organize into HMO's or other economic units to directly compete for beneficiaries.

(3) Criticism of the "Pro-Competitive" Strategies for Health Care Reform

From various segments of the health care industry, a number of questions have been raised by the opponents of these theories to alleviate the problems of the health care system:

—Adverse selection is viewed as a drawback to a competitive strategy, particularly if individuals are not only permitted to choose among plans or plan options, but are also encouraged to do so by means of certain incentives, such as cash rebates. If individuals are offered a choice between a low-cost option, containing more cost-sharing with fewer benefits, and a more costly plan with more comprehensive benefits and less cost-sharing, those who expected few medical expenses in the near future could be expected to choose the low-cost plan. Those members who expected high-cost medical bills would choose, or switch to, the higher option plan until their medical needs were satisfied. If this occurred, the cost of the higher option plans would increase dramatically, and the intended sharing of all risks over all groups would diminish.

—When given the choice for more health insurance, significant numbers enrolled in the Federal employees health benefits program, the health benefits program for all Federal workers, chose the comprehensive low-deductible plans. This leaves the question of whether individuals will actually choose less health insurance than they currently have, or whether they will choose the highest benefit plan that they could possibly afford.

—It is unclear whether, if offered incentives to choose low-cost insurance options, such as cash rebates, if individuals would actually underinsure themselves.

—One of the tenets of market-based economics is that the consumer has the knowledge to shop effectively. Since health care and health insurance are extremely complex issues, the costs of educating the public to efficiently shop in the medical marketplace may defeat any cost savings that may be realized through a "pro-competitive" approach to reforming the health care system.

—Greater sharing of the costs of the health care purchased through higher copayments and deductibles may result merely in cost shifting to the consumer, without significantly reducing general health care expenditures.

—An assumption of the "pro-competition" strategies is that by changing the incentives for insurance, provider pricing behavior will be influenced. With reduced benefits and higher copayment formulas under these new strategies, beneficiaries will be shopping for the lowest cost providers. Therefore, it is unknown how much the provision of quality care will be affected under these circumstances.

Along with criticisms cited above, additional concerns have been raised about medicare voucher proposals such as the Voluntary Medicare Option Act of 1981 which was introduced by Representatives Bill Gradison and Richard Gephardt in the 97th Congress. They are as follows:

—Many argue that the proposed indices to make current the future values of vouchers, the GNP deflator and CPI, do not keep pace with health care cost increases. In this case, the overall value of vouchers decline over time.

—There are increased administrative costs associated with private plans over the traditional medicare program, such as advertising, enrollment costs, premium taxes, reserves, and profit margins.

—Questions remain on how the medicare program should be preserved to meet the needs of particular enrollee groups, such as end stage renal disease patients.

—Regarding qualified voucher plans, no explanation has been given to the extensive nature of regulations that define qualifying requirements.

2. MEDICAID

The medicaid program provides matching funds to States to finance medical care for low-income persons who are in families with dependent children, or who are aged, blind, or disabled. Federal financial participation in the medicaid program is based on a matching rate according to a State's per capita income. Although the program is governed by a mixture of Federal and State eligibility requirements, the States are responsible for the administration of their respective medicaid programs. It is estimated that 3.6 of the 22.1 million medicaid recipients are elderly.

According to HCFA, outlays for medicaid expenditures increased from $5 billion to $25.2 billion between 1970 to 1980, a 404 percent increase. Medicaid outlays in fiscal year 1981 were $30 billion—16.8 percent Federal and 13.2 percent State. Estimated medicaid outlays in fiscal year 1982 are $32.2 billion—$17.4 billion Federal and $14.8 billion State, an increase of 7.3 percent over 1981. If nursing home expenditures are disregarded medicaid expenditures increased 8.3 percent between 1981 and 1982, considerably less than the 12.1 percent increase in national health care expenditures.

Program expenditures are heavily weighted toward institutional services, especially long-term care. Federal and State medicaid spending for nursing home care, totaling $13.2 billion in 1982, constituted 39 percent of total program costs, while inpatient hospital care represented 34 percent. The remaining 27 percent was accounted for by physician care, outpatient hospital services, drugs, and home care.[21]

Chart 7 shows where the medicaid dollar was spent for personal health services in calendar year 1982.

During the past few years, both Federal and State actions have been taken to limit rapidly growing medicaid costs. The 1981 Omnibus Reconciliation Act provided program spending reductions estimated to save $1 billion. Federal matching payments to all States were reduced by 3 percent in fiscal year 1982, reductions of 4 percent are scheduled for fiscal year 1983, and 4.5 percent in fiscal year 1984. The act also increased State flexibility to encourage cost-effective arrangements with service providers and expand home

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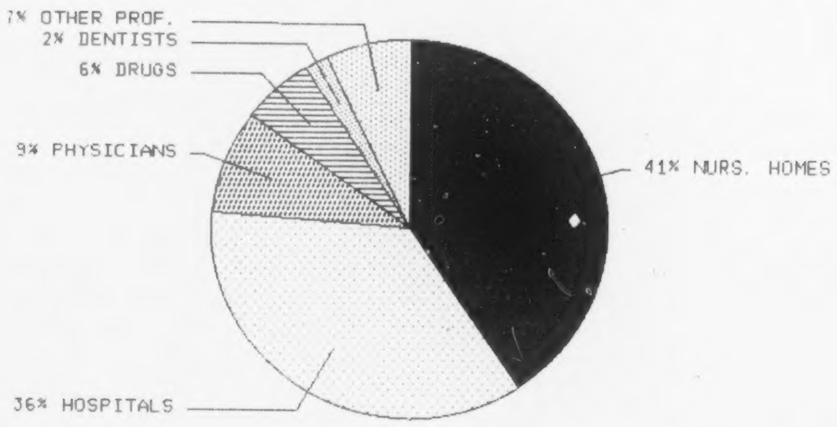
[21] Ibid.

CHART 7

WHERE THE MEDICAID DOLLAR GOES - 1982



SOURCE: HEALTH CARE FINANCING ADMINISTRATION, UNPUBLISHED

and community-based long-term care services, if not more costly than institutional care. Medicaid savings enacted in the 1982 tax bill (TEFRA) will save an estimated additional $256 million in fiscal year 1983.

(A) STATE ACTIONS

Federal spending reductions, rapidly increasing medical costs, and shrinking State revenues in 1981 and 1982 have combined to cause many States to take additional medicaid cost-savings measures. Medicaid has become one of the largest programs that most States fund and the most rapidly increasing item in most State budgets.

According to George Washington University Intergovernmental Health Policy Project (IHPP), in January 1981, more than half of the States projected moderate to serious shortfalls in their medicaid budgets. By October 1981, IHPP reports, more than 30 States took some form of action resulting in reductions in either benefits, eligibility, or provider reimbursement. IHPP's most recent survey report on medicaid program changes as of July 1982, identifies a number of additional State initiatives proposed as a result of medicaid provisions in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35)—which allowed waivers to restrict patient freedom of choice (section 2175), waivers for home and community-based services (section 2176), and provided increased flexibility to States in designing and implementing their medicaid programs including a relaxation of reimbursement regulations.

The July 1982 IHPP report found that States have taken a variety of cost-containment steps including restricting or eliminating services, or adding copayments; changing eligibility criteria; limiting hospital, physician, and nursing home reimbursement; and adding measures to control fraud and abuse and to restrict or monitor the utilization of services. The report adds, however, that 16 States have reinstated services that had previously been eliminated, the majority of which are services that are alternatives to institutionalization under section 2176 waivers. In addition, two States are considering implementing limited medically needy programs.

(B) WAIVERS

(1) Section 2175, "Freedom of Choice" Waiver Authority

Under this authority, the Secretary of Health and Human Services may approve restrictions on providers or practitioners from or through whom an individual may obtain services (other than emergency services) provided: (1) Such providers or practitioners accept and comply with the reimbursement, quality, and utilization standards under the State plan; (2) such restrictions are consistent with access, quality, and efficient and economic provision of services; and (3) the restriction does not discriminate among classes of providers on grounds unrelated to their effectiveness and efficiency in providing care.

Twenty States have applied for section 2175 waivers. Of the 50 applications made, 22 were approved, 11 were disapproved, 6 requests were withdrawn, and 11 are awaiting decision.

Of the waiver requests approved to date, most are plans to enroll recipients with HMO's or primary care providers.

(2) Section 2176, Home and Community-Based Services Waiver Authority

This authority permits automatically renewable waivers for States to provide coverage for a range of home and community-based services pursuant to an individual plan of care to persons who would otherwise require institutional services, provided that the States demonstrate that their waiver proposals do not increase medicaid costs.

Thirty-seven States have applied for section 2176 waivers. Of the 55 applications made, 31 were approved and 6 were disapproved, 2 were withdrawn, and 16 are pending. A more extensive discussion of these waiver proposals is included in the following chapter on long-term care.

(C) CONTINUING ISSUES

Increasing medical costs and shrinking State budgets assure that medicaid cost-containment will continue to dominate State health agendas in the near future. It will continue to be an issue even if Congress resists additional significant reductions in Federal spending for medicaid as it did in 1982 (see following section on Federal health legislation). Many States have State constitutions which forbid unbalanced budgets which force limits on medicaid spending. Medicaid eligibility requirements continue to vary from State to State, and States have marked differences in their ability to fund their share of the program.

Concerns have been raised about the impact of restrictions and limits in eligibility, services, and reimbursement on the accessibility and quality of care for medicaid recipients. The American Hospital Association, and others, have pointed to the fact the responsibility for providing care for the disadvantaged fails on a minority of hospitals "whose capacities are already severely strained in some communities." According to research from Brandeis University, evidence from urban hospital patient population trends "points to the exclusion of growing numbers of lower income people from the urban voluntary hospital sector." "Between 1970 and 1980, occupancy rates went up in public hospitals—the only sector of the hospital economy for which this was true. We can expect a growing need for public hospital care, but local government entities find it very difficult to match their principal revenue source—property taxes—with health care, which is one of the fastest growing expenditures nationally."

Additional concerns have been raised regarding waivering freedom of choice. While proposals to date may result in cost-effective options for medicaid recipients which may actually provide more services and coordination of care, actions under these waivers could result in an even wider distinction between systems of health care for the poor and nonpoor. In addition, the lack of freedom of choice increases the necessity for other measures to assure adequate quality of care.

Moratoria on nursing home bed construction and limits or reductions in nursing home reimbursements may also result in limited accessibility for medicaid patients, increased costs for private pay patients, and/or quality care issues. These issues will be discussed in more detail in the following chapter on long-term care.

The concerns above may or may not all be realized, but substantial changes have occurred in the medicaid program over the past 2 years which call for monitoring and in-depth evaluation of their effect.

C. FEDERAL HEALTH LEGISLATION

Health programs continued to be a target for budgetary reductions in 1982, particularly the Federal health entitlement programs—medicare and medicaid. However, Congress also took steps in 1982, for the first time, toward systemic reforms for these programs. In addition, several key public health programs, including community health centers, received additional funding as Congress determined that budget cuts enacted for these programs in 1981 may have gone too far.

Major changes in health programs in 1982 were again enacted in a budgetary legislative context. The 1982 Tax Act (Public Law 97-248) and the continuing resolution (Public Law 97-161) included most of the provisions enacted in 1982. One additional bill, the Orphan Drug Act (Public Law 97-414), enacted in 1982, provides incentives and grants for the development and marketing of drugs to treat rare illnesses, as well as a provision for grants and loans to start home health agencies in underserved areas. A summary of the health legislation affecting health programs for the elderly enacted in 1982 follows:

1. The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248)

(A) MEDICARE

The medicare provisions of the 1982 tax bill will result in an estimated savings of $2.7 billion in fiscal year 1983, and savings of $12 billion over the 3-year period from fiscal year 1983 to 1985. The majority of these savings, almost 70 percent, are achieved through changes in hospital and hospital-based physician reimbursement.

TEFRA also includes two cost-effective medicare benefit provisions which expand medicare benefits by allowing medicare reimbursement for hospice care and prospective medicare reimbursement for health maintenance organizations and other prepaid group plans. Congress took an additional step toward health system reform by directing the Secretary of Health and Human Services to develop a plan for hospital prospective reimbursement to change the incentives for spending which are present in the current system which pays retrospectively on the basis of costs.

The following changes in medicare law enacted in 1982 are categorized in three areas: (1) Beneficiary coverage, (2) provider reimbursement, and (3) program management.

(1) Beneficiary Coverage

(a) Enrollment changes

(i) Bring Federal employees under medicare part A

Previously, Federal workers did not pay social security tax and were not enrolled in the medicare program.

Congress adopted the administration's proposal to have all of the estimated 2.6 million Federal employees pay the health insurance portion of the payroll tax for the first time, beginning in fiscal year 1983, with minor revisions. Federal employees become subject to the hospital insurance portion of the social security tax, effective January 1, 1983. The estimated fiscal year 1983 revenue increase to the hospital insurance trust fund is $617 million.

(ii) Modify medicare coverage of the working aged

Eligibility for medicare has been based solely on age or disability status and HI contributions. Medicare, therefore, pays benefits regardless of a working beneficiary's eligibility for employment-based health benefits. Employers often provide a health benefits package that supplements medicare coverage for their medicare employees.

Congress adopted an administration proposal to change this arrangement by requiring employers to offer elderly employees (age 65 to 69) the same health benefit package offered to younger workers, making medicare the secondary payer to these plans. The older worker will have the option of choosing either the employer benefit plan or medicare.

Congress added a provision to exempt employers with less than 20 employees from this requirement. The provision became effective January 1, 1983. Estimated savings are $350 million in fiscal year 1983. The cost of this provision to employers will vary, depending on the number of elderly persons they employ and the structure of the benefit packages offered to employees.

(iii) Administration proposals not adopted by Congress

Congress did not adopt an administration proposal to defer eligibility for medicare to the first day of the month following the month of the beneficiary's 65th birthday. Under current law, eligibility for medicare begins on the first day in the month in which an individual's 65th birthday occurs.

(b) Beneficiary cost-sharing

(i) Part B premium as a constant percentage of costs

Congress enacted one increase in beneficiary cost-sharing which was not part of the administration's proposals. This provision will hold the part B premium as a constant percentage of costs, 25 percent, beginning in July 1983, for an estimated savings of $45 million in fiscal year 1983. Currently, annual increases in the premium are limited to the lower of the percentage by which cash social security benefits most recently increased, or the increase in the costs of the program as is required by present law. The present law method of calculating premiums will resume on July 1, 1985.

This provision will result in a projected monthly premium of $13.70 beginning July 1, 1983 (rather than the $13.10 projected under prior law), and a monthly premium of $15.30 beginning in July 1, 1984 (rather than the $14 projected under prior law).

(ii) Administration proposals not adopted by Congress

The administration's budget proposed to require a 5-percent copayment on all home health visits, effective January 1, 1983, for a fiscal year 1983 savings of $35 million. Under current law, copayments for home health visits are not required. Congress did not adopt this proposal, which would have resulted in an additional cost of approximately $1.70 per visit for the 900,000 beneficiaries who use medicare's home health program.

The administration also proposed to index the part B deductible to the Consumer Price Index (CPI) beginning January 1, 1983, for an estimated fiscal year savings of $65 million. At present, the amount of the part B deductible can only be changed by an act of Congress. Congress did not adopt this proposal, which would have resulted in increased out-of-pocket or supplemental insurance costs.

(c) Benefit changes

(i) Medicare payments to health maintenance organizations

This provision was originally introduced in the Senate as S. 1509 by Senator John Heinz (R-Pa.), and in the House as H.R. 3399 by Representative Henry Waxman (D-Calif.). It modifies current law requirements for contracting with health maintenance organizations and other competitive medical plans to allow medicare to reimburse these health plans on a prepaid basis under risk-sharing contracts. The prospective reimbursement rate will be equal to 95 percent of the adjusted average per capita costs, which is the fee-for-service cost of providing medicare services in an eligible competitive medical plan's service area to a similar medicare population. Eligible plans must meet specified requirements and provide medicare services. Any plan savings must be used for the provision of additional benefits, services, or reductions in beneficiary premiums, deductibles, or copayments.

Prepaid health plans have only nominal, defined cost-sharing for consumers and often offer a wider range of benefits. This provision will allow medicare beneficiaries to take advantage of prepaid plan options for the first time. The effective date is the latter of 13 months after enactment, or the first month after the Secretary has developed a methodology to assure the formula on which the prepayment is determined is actuarily sound.

(ii) Hospice care

This provision was originally introduced in the Senate as S. 1958 by Senator Robert Dole (R.-Kans.) and in the House as H.R. 5180 by Representative Leon Panetta (D-Calif.). The Senate Aging Committee held a hearing on May 24, 1982, in Pittsburgh, chaired by Senator John Heinz, in which beneficiaries and hospice providers testified to the benefits and cost-effectiveness of hopice. On the basis of this hearing and CBO cost analyses, Senator Heinz introduced an amendment, accepted by unanimous consent in the Senate, to include a medicare benefit for hospice care in the tax bill.

The hospice provision, as enacted, authorizes coverage under medicare part A for terminally ill beneficiaries with a life expectancy of 6 months or less, if the beneficiary chooses hospice care in lieu of the other medicare benefits, except those of the attending physician. Benefits covered include nursing care, therapies, medical social services, homemaker-home health aide services, short-term inpatient care, outpatient drugs for pain relief, and respite care. Copayments of 5 percent will be imposed on respite care, and copayments of the lesser of 5 percent or $5 per prescription will be required for covered outpatient drugs. The provision will be effective for hospice care provided on or after November 1, 1983, for an estimated increase in medicare outlays of $1 million in fiscal year 1983, $1 million in fiscal year 1984, and a savings of $16 million in fiscal year 1985.

(iii) Coverage of extended care services without regard to 3-day prior hospitalization requirement

Originally introduced in the Senate as S. 1754 by Senator John Heinz and in the House as H.R. 4227 by Representative Ron Wyden

(D-Ore.), this provision was included in the 1982 Tax Act by House and Senate conferees.

Current law requires a 3-day prior hospital stay before a beneficiary can become eligible for medicare reimbursement for skilled nursing facility care. This provision eliminates this requirement at such time that the Secretary determines that this measure will not lead to increased costs. The provision allows limitations to be placed on eligibility and the scope of services for persons covered without a prior hospital stay.

(iv) Prohibition of payment for ineffective drugs

This provision prohibits medicare and medicaid from paying for certain less-than-effective drugs. The drugs involved are among those licensed for public use before 1962, when Congress made efficacy as well as safety a requirement for sale of prescription drugs. Most of these drugs have been found effective or found ineffective and removed from the market. However, there are still some drugs that the Food and Drug Administration has initially found to lack evidence of effectiveness, but about which has yet to make a final market decision. The provision does not remove these drugs from the market, but prohibits Federal reimbursement under medicare and medicaid once the Government makes an initial finding that evidence of effectiveness is lacking.

Legislation prohibiting Federal payment for less-than-effective drugs was originally enacted in the Omnibus Budget Reconciliation Act of 1981, but subsequent legislation has led to delays in the implementation. This provision implementing the previous legislation became effective October 1, 1982. No costs or savings to the Federal Government will result from enactment of this provision.

(2) Provider Reimbursement

(a) Hospital reimbursement

The majority of medicare savings in the 1982 tax bill are in savings assumed through changes in provider reimbursement, particularly hospital reimbursement. These changes were adopted by Congress to curb hospital cost increases and will result in an estimated medicare savings of $480 million in fiscal year 1983. They are as follows:

(i) Expansion of section 223 limits to include ancillary costs

Under prior law, medicare reimbursement for a hospital's inpatient routine operating cost (i.e., bed, board, and routine nursing) could not exceed a limit based on similar costs incurred by comparable hospitals. Under this limitation, a hospital could not be paid more than 108 percent of the average routine cost per day incurred by other hospitals of the same type unless it qualify for an exception or exemption.

This provision extended the section 223 limitation to include ancillary, as well as routine, service operating costs, effective with hospital cost reporting periods beginning on or after October 1, 1982. The new limitation is to be applied on an average cost-per-case basis and adjusted for case-mix. In the first reporting period it becomes effective, the new limitation is set at 120 percent of the mean for hospitals of the same type. For the second year, the limitation will be 115 percent of the mean. For the third year and subsequent years, the limitation will be 110 percent of the mean. Certain exceptions and exemptions are provided, including a requirement for appropriate adjustments for the special needs of hospitals serving a significantly disproportionate number of low-income or medicare patients. In addition, rural hospitals with less than 50 beds are excluded.

(ii) Three-year hospital rate of increase

Under this provision, a target rate reimbursement system will be established to encourage hospitals to keep their costs below certain limits. Hospitals with operating costs below the target rate will be paid their costs plus a percentage of their savings as a bonus.

Provider payments under this system cannot exceed the amount payable under the new section 223 limitations. The provision requires the Secretary to provide for exemptions, exceptions, and adjustments in cases where events beyond the hospital's control distort the hospital's increase in costs.

(iii) Additional changes

In other hospital reimbursement changes, Congress included a provision requiring the Secretary of Health and Human Services to develop a medicare prospective reimbursement system for hospitals, skilled nursing facilities, and if feasible, other providers. Congress also enacted a provision to modify the existing periodic interim payment (PIP) procedure for hospitals by providing a 3-week delay in the flow of PIP payments during September 1983, for a fiscal year 1983 savings of $750 million. A similar deferral is authorized during September 1984. In addition, Congress adopted an administration proposal to eliminate medicare's subsidy for private hospital rooms for a savings of $54 million. Eliminating this subsidy does not alter medicare's policy of covering private rooms when medically necessary.

(iv) Administration proposals not adopted by Congress

Congress did not adopt the administration's proposal to disallow 2 percent of all medicare hospital costs for an estimated fiscal year 1983 savings of $653 million. Two major issues were raised by this proposal. First, the 2-percent disallowance could fall most heavily on the most efficiently run hospitals; and second, the 2-percent loss could potentially be shifted to private payers, the medicaid program, or to the medicare program itself through changes in the way costs are allocated.

(b) Physician reimbursement

(i) Hospital-based physicians

Congress adopted two administration proposals changing reimbursement for hospital-based physicians. First, Congress eliminated the 100-percent reimbursement rate applicable to services provided to hospital inpatients by radiologists and pathologists who accept assignment. Hospital-based radiologists and pathologists will be reimbursed at the same level as for other physicians (80 percent of reasonable charges), for a savings of $160 million in fiscal year 1983. Second, Congress directed the Secretary to issue regulations to eliminate duplicate payment of overhead expenses for physicians who deliver services in hospital outpatient departments for a savings of $160 million in fiscal year 1983. Currently, overhead charges are paid both to the physician and the hospital.

Congress also enacted an additional provision, not proposed by the administration, which directs the Secretary to issue regulations to distinguish between services provided by provider-based physicians which are personally rendered to an individual patient, and those which are of benefit to all patients in general. The former will be reimbursed only on a charge basis under part B. The latter will be reimbursed only on a reasonable cost basis under part A. This provision became effective on October 1, 1982, for an estimated savings of $63 million in fiscal year 1983.

The impact of these proposals on beneficiary cost-sharing is unknown, although lowering hospital-based radiologist and pathologist reimbursement may result in costs being shifted to beneficiaries.

(ii) Administration proposals not adopted by Congress

Congress did not adopt two administration proposals which would have delayed the annual reasonable charge amount update from July 1 to September 30, and limited the economic index used to calculate increases on physician charges to 5 percent, rather than the anticipated July 1982 increase of 8.9 percent. These physician reimbursement changes would have increased the difference between what medicare covers and the actual physician charge, and could have increased beneficiary out-of-pocket costs for physician services. Total fiscal year 1983 savings from these proposals were estimated to be $245 million.

(c) Other provider reimbursement changes

Congress eliminated the routine nursing salary cost differential paid to hospitals and skilled nursing facilities, effective October 1, 1982, for a savings of $95 million in fiscal year 1983. Congress also adopted an administration proposal to set a single medicare reimbursement limit for hospital-based and freestanding skilled nursing facilities and home health programs, to encourage more efficient service delivery on the part of more expensive hospital-based facilities. Effective October 1, 1982, the provision is estimated to save $18 million in fiscal year 1983. In addition, Congress enacted a provision to prohibit medicare reimbursement for costs incurred by providers for activities related to influencing employees with respect to unionization. The provision became effective on the date of enactment and overturns a recent HHS decision to allow reimbursement for these costs. No costs or savings are assumed to result from implementation of this proposal.

(d) Program management

The 1982 tax bill requires that medicare contractor budgets for fiscal years 1983, 1984, and 1985 be supplemented by $45 million in each year for provider cost audits and medical review activities. The administration had proposed to continue contractor funding at fiscal year 1982 levels, which would represent a reduction in funding due to inflation. Estimated fiscal year 1983 net savings from improved contractor services are $130 million. In addition, the bill requires the Secretary to undertake medicare initiatives to improve medical review by intermediaries and carriers, and to encourage similar review and utilization control activities by private insurers, for an estimated fiscal year 1983 savings of $330 million. Congress also created the peer review organization (PRO) program to replace the professional standards review organization (PSRO) program which the administration proposed to eliminate. The new program places a greater emphasis on private sector involvement but retains the principle of physicians reviewing other physicians.

(B) MEDICAID

The 1982 tax bill provides for a reduction in medicaid outlays of $256 million in fiscal year 1983, or a total of $1 billion over the 3-year fiscal period from 1983 to 1985. This is substantially less than the $2 billion in fiscal year 1983 medicaid spending reductions proposed by the administration. Congress did not adopt administration proposals which would have shifted additional medicaid costs to States, nor did they adopt most of the administration proposals to further restrict eligibility requirements for SSI and AFDC programs.

The majority of the proposed medicaid savings in the 1982 tax bill comes from two provisions affecting beneficiaries, copayments, and long-term care cost recovery. An additional provision, unrelated to savings, imposes a 6-month moratorium on nursing home regulation changes proposed by the administration. They are as follows:

(1) Recipient Copayments

Under previous law, States were not permitted to impose cost-sharing charges on mandatory services provided to the categorically needy (i.e., individuals receiving cash assistance under the AFDC or SSI programs). They were permitted, but not required, to impose such charges on all services for the medically needy (i.e., individuals with incomes above the cash assistance standards) and on optional services for the categorically needy. All cost-sharing charges had to be nominal in amounts.

Congress adopted an administration proposal to allow States to impose nominal copayments on all beneficiaries for all services, but added provisions to prohibit States from imposing copayments on nursing home patients, children under 18, and categorically needy persons enrolled in health maintenance organizations as well as on services related to pregnancy, emergency services, and family planning services. All copayments must be nominal except in certain cases of nonemergency services in emergency rooms. Congress also specified that no individual may be denied services because of his or her inability to pay cost-sharing charges. These provisions became effective on enactment. Fiscal year 1983 savings are estimated to be $45 million.

(2) Modifications in Lien and Asset Provisions

Under prior law, States were prohibited from imposing liens on a medicaid recipient's property before his or her death.

Congress adopted an administration proposal to permit States to attach the real property of medicaid recipients who are permanently institutionalized in nursing homes or other long-term care medical institutions. States can recover the cost of medical assistance provided to the recipient only when the property is no longer needed by the recipient, spouse, sibling, or disabled or dependent children. States cannot foreclose on the lien until the home is sold, or the recipient dies, or while certain nondependent children remain in the home.

The 1982 tax bill also included a provision which allows States to deny medicaid eligibility temporarily to patients in medical institutions who dispose of a home for less than fair market value, even though such disposal would not make them ineligible for SSI benefits. The period of ineligibility is 24 months except that States: (a) Are allowed to deny eligibility for a longer period if the uncompensated value of the home is greater than 24 months of benefits; and (b) are required to set a shorter time period if the uncompensated value is less than 24 months of benefits. The period of eligibility delay must be related to the uncompensated value of the home and cost of benefits. The provision will not apply in the case of individuals who reasonably expect to be discharged from a medical institution and return home; individuals who demonstrate that they intended to obtain fair market value for their homes; or individuals who transferred title of their homes to a spouse, a minor, or handicapped child.

These provisions became effective on enactment of the 1982 tax bill. The transfer of assets provision only applies to transfers occurring after the date of enactment. Estimated fiscal year 1983 savings are $165 million.

(3) Six-Month Moratorium on Nursing Home Regulations

On May 27, 1982, the Department of Health and Human Services published proposed regulations pertaining to nursing home surveys and certification. Patient advocates, State licensing and certification agencies, aging and consumer groups, and many Members of Congress, including the Senate and House Aging Committees, have charged that implementation of these proposed regulations would weaken the safeguards that protect nursing home patients.

This provision bars these proposed regulations from being implemented for 6 months following enactment to provide opportunity for further review, revision, or withdrawal. The Department is instructed to consult with Congress, the General Accounting Office, groups representing nursing home residents, State survey and certification agencies, and nursing home operators, prior to resubmitting the regulations. A further discussion of the nursing home regulatory proposals is included in the following chapter on long-term care.

(4) Additional Changes

The 1982 tax bill included a provision requiring States to reduce their error rates for medicaid eligibility determinations to 3 percent by March 31, 1983, or be subject to a penalty, for a fiscal year 1983 savings of $30 million. Provisions were also included which allow optional medicaid coverage of home care services for certain medicaid-eligible disabled children, and extend Federal funding for medicaid services in American Samoa.

(5) Administration Proposals Not Adopted by Congress

Congress did not adopt the administration's State cost-sharing proposals, which would have eliminated the Federal matching rate for the medicare part B "buy-in," for a fiscal year 1983 savings of $45 million, and reduced the Federal medicaid matching rate by 3 percent for optional services for the categorically eligible and all services for the medically needy for a fiscal year 1983 savings of $600 million. While these optional services include clinics, drugs, and dental services, among others, the major impact of this proposal for the elderly would have fallen most heavily on the potential reduction in support for nursing home care and the 550,000 elderly nursing home residents who are medicaid recipients.

Congress did not assume implementation of proposed administration regulations allowing States to require adult children of institutionalized medicaid recipients to contribute to the cost of their elderly relative's care. Because this is a regulatory, rather than a legislative proposal, the Department of Health and Human Services could still move forward with its implementation. The administration has estimated that $29 million could be saved in fiscal year 1983 from this proposal.

(C) DEDUCTIONS FOR MEDICAL EXPENSES

Under previous law, individuals who itemize their income tax deductions could deduct two categories of medical expenses:

(1) Up to $150 for one-half of their health insurance premiums.

(2) All other unreimbursed medical expenditures, including health insurance premiums not allowed in the first category, which exceed 3 percent of adjusted gross income. Drug expenditures which exceed 1 percent of adjusted gross income may be included.

The 1982 tax bill modifies the medical expense deduction by eliminating the $150 deductible or one-half of health insurance premiums and raising the floor of deductible medical expenses from 3 to 5 percent effective for taxable years beginning after December 31, 1982. The 1-percent floor under drug expenditures is eliminated effective for taxable years beginning after December 31, 1983. The only drug expenditures which will be deductible will be for those which legally require a prescription or for insulin. The estimated revenue increase from these provisions is $272 million in fiscal year 1983.

These modifications will affect persons over 65 who file tax returns and itemize deductions. About 20 percent of the tax returns of persons over 65 include medical expense deductions. In 1979, dollars deducted for medical expenses by taxpayers over 65 accounted for 25 percent of all medical expense deductions.

2. The Continuing Resolution (Public Law 97-161)

The continuing resolution made appropriations for a wide array of discretionary health programs including health research, manpower training, health planning, disease control, and service delivery. Most of these programs are administered by the Public Health Service of HHS. The appropriations for most public health programs were frozen at the fiscal year 1982 level as part of the compromise budget passed by Congress. For many programs, this freeze creates shortfalls due to inflation. Provisions in the continuing resolution affecting health programs which may serve the elderly are as follows:

(A) HEALTH RESEARCH

Eighty to ninety percent of the Nation's basic research is financed by the Federal Government. Most of this research is carried out by the National Institutes of Health. Expanding Federal involvement in biomedical research has resulted in a 12.5-percent annual increase in expenditures between 1970 and 1981, or 4.3 percent after adjusting for inflation. There was no increase in Federal expenditures for health research in fiscal year 1982, with programs continuing at fiscal year 1981 levels of $3.8 billion. The administration's fiscal year 1983 budget requested $4 billion. The first concurrent resolution on the budget assumed $3.9 billion, a $50-million increase over fiscal year 1982. The continuing resolution appropriates $4.002 billion and directs NIH to support close to 5,000 new and competing research project grants and to support additional research trainees to help mitigate last year's reductions in resources due to level funding.

The National Institute on Aging plays the lead role in the development of knowledge about the aging process and the health of the elderly. Since 1977, Federal funding for the Institute's research program on aging has doubled. From 1981 to 1982, the Institute's budget was increased slightly above the level required to maintain 1981 programs. The administration requested $84.56 million for fiscal year 1983, an increase of $2.65 million over fiscal year 1982, $3.16 million below the amount required to maintain programs at their current levels. The first concurrent resolution on the budget assumed $82.54 million. The continuing resolution appropriates $93.996 billion.

(B) COMMUNITY HEALTH CENTERS

The 1981 Budget Reconciliation Act provided for the establishment of four health block grants, three of which are of relevance to the elderly: (1) Preventive health services, (2) alcohol, drug abuse, and mental health, and (3) primary care. The primary care block grant, which includes community health centers, was supposed to be implemented by fiscal year 1983. However, it has yet to be implemented. Following a court decision overturning current block grant regulation, Congress ordered HHS to write separate regulations for the community health centers programs. The continuing resolution provides $295 million for community health centers to insure that the fiscal year funding 1982 level can be maintained in fiscal year 1983, and to permit the program to expand activities in high priority medical service areas and in its special prevention initiative.

(C) ALCOHOL, DRUG ABUSE, AND MENTAL HEALTH

The administration requested $433 million for the ADAMH block grant for fiscal year 1983, the same as assumed in the fiscal year 1983 first budget resolution. The continuing resolution appropriates $777.6 million. In addition, conferees added funds for research and clinical training in mental health, an area hard hit by last year's budget.

(D) PREVENTIVE HEALTH BLOCK GRANT

The administration proposed fiscal year 1983 funding for the health prevention and services block grant of $83 million, as did the fiscal year 1983 first budget resolution. The continuing resolution provides $86.3 million which keeps the block grant at current activity levels.

(E) HEALTH PLANNING

Legislation to reauthorize the health planning program, which the administration wishes to eliminate, was not enacted in 1982. However, congressional support for some kind of a planning program was evident. The continuing resolution provides nearly $64 million for fiscal year 1983, a reduction from fiscal year 1982 appropriations of $85 million. It also blocks HHS from terminating health systems agencies or imposing penalties on States without certificate of need laws.

(F) PSRO'S

The Senate, led by Senators David Durenberger (R-Minn.) and Max Baucus (D-Mont.), successfully opposed the administration's plan to eliminate the professional standards review organization (PSRO) program under medicare. Instead, as part of TEFRA, Congress created the peer review organization (PRO) program to replace PSRO's at the end of the current fiscal year. The new program has a decidedly greater emphasis on private sector involvement, but retains the principle of physicians reviewing other physicians. The administration continues to try to eliminate the program, however; and a House Appropriations Labor-HHS Subcommittee conferee successfully added language to the continuing resolution which reduced funding to $15 million rather than the $25 million that the Senate proposed, and allowed HHS to terminate as many PSRO's as it likes.

(G) FEDERAL TRADE COMMISSION, PROFESSIONAL EXEMPTION

A well-funded effort by the medical industry to gain an exemption for physicians from FTC antitrust enforcement initially passed in the House, but was soundly defeated in the Senate. The Senate defeat was based on specific concerns about eliminating consumer protections against such activities as price-fixing, boycotting, and fraud. The Senate instead accepted a compromise offered by Senator Warren Rudman (R-N.H.) which would have specifically defined FTC jurisdiction to include business practices of the professions, but excluded FTC jurisdiction over professional practices such as licensure, quality, and educational requirements traditionally left to the States and the professions. The House and Senate conferees on the continuing resolution dropped the Senate compromise language, and FTC jurisdiction over the professions continues.

3. THE 1983 HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS BILL, PUBLIC LAW 97-101 (VETERANS HEALTH)

The Veterans Administration (VA) delivers inpatient and ambulatory care to veterans through a nationwide health care system comprised of hospitals, nursing homes, outpatient clinics, and domiciliary care facilities. Expenditures for veterans medical care increased by 13.1 percent annually between 1970 and 1981, from $1.8 billion in fiscal year 1970 to $7 billion in fiscal year 1981. This increase is attributed primarily to an increase of 155 percent in the number of patients treated and to increases in the cost of providing medical care. Costs in the VA system were somewhat restrained during this period by a 63-percent decrease in the median length of hospital stay. Spending for veterans medical care is expected to continue to grow rapidly because of demographic trends, as well as increasing health care costs. The number of veterans over age 65 will more than double in the 1980's.

The administration's budget request included no significant policy changes and requested a funding level of $7.5 billion for fiscal year 1983. The first concurrent resolution on the budget also assumed no major policy changes and a funding level of $7.5 billion, which was subsequently provided by the 1983 Housing and Urban Development—Independent Agencies appropriations bill. Included in this amount was a fiscal year 1983 increase of $12.5 million for nursing staff and an additional $4.3 million for nursing home care.

4. THE ORPHAN DRUG ACT, PUBLIC LAW 97-414

This legislation, introduced by Senator Nancy Landon Kassebaum (R-Kans.) and Representative Henry Waxman (D-Calif.), authorizes tax credits and other incentives to spur drug companies to develop drugs for illnesses that afflict so few people that the costs of development are likely to exceed profits.

The legislation also includes a provision to reinstate a separate grants and loans program for the development of home health agencies in underserved areas which had previously been eliminated in 1981. The bill authorizes $5 million for these grants and loans in fiscal year 1983 and in fiscal year 1984. In addition, the bill authorizes $2 million for fiscal year 1983 and for fiscal year 1984 for grants and contracts to train homemaker/home health aides.

The bill also calls for several studies to be conducted by HHS and reported to Congress including: (1) The impact and need of the above grant/loan and contract programs, (2) the results and analyses of studies currently evaluating home and community-based services or alternative reimbursement methodologies for home health services, (3) an investigation of methods to stem fraud and abuse in the provision of home health services under medicare and medicaid, and (4) methods of identifying patients at risk for institutionalization who could be treated more cost-effectively at home.

D. OVERSIGHT ACTIVITIES

In adopting cost reimbursement for medicare in 1965, Congress had two related goals: To establish the political acceptability of the program among providers of health care—especially hospitals; and to assure the availability of a sufficient number of health care providers willing to provide benefits within medicare. In essence, Congress sought to ease concerns for Federal interference in the private health sector by adopting what had emerged as the dominant reimbursement methodology for third-party payers. Both the American Hospital Association and Blue Cross—the largest third-party payer in 1965—had endorsed and encouraged the adoption of a cost-related reimbursement mechanism.

In implementing the "reasonable cost" provisions of medicare, the Department of Health, Education, and Welfare similarly attempted to attract industry support. This implementation involved such liberality toward hospitals that payment levels were soon dramatically in excess of the original actuarial estimates of what medicare was to cost the taxpayer.[22] Much of the history of medicare legislation and regulation since has been an attempt to constrict the opening created in 1965.

The initial HEW regulations defining reasonable cost did not emphasize the "reasonableness of cost" but rather set out to determine whether actually incurred costs fell into defined "allowable" categories. The only limit on provider costs appeared to be an exclusion based on a determination that the institutions costs were substantially out of line with other similar institutions.

Some health policy analysts have argued that in adopting these provisions, HEW effectively abdicated all responsibility for evaluating or assisting hospitals in determining for themselves the necessity or efficiency of costs incurred. The regulations stood as a promise that if participating hospitals accepted patients under medicare they would receive all the costs they chose to incur in providing that care.

The effect of these regulations was immediately evident in their impact on the cost of the program. The original actuarial projection of 1970 costs for medicare was set at $3.1 billion. In 1967, that estimate was revised to $4.4 billion. In January 1969, the estimate was again revised to $5 billion.

Since 1965, hearings of the Senate Committee on Aging and other congressional committees have repeatedly detailed problems related to medicare's retrospective cost-based reimbursement methodology. The system has proven to be difficult to administer, financially unsound, and a virtual invitation to abuse.

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[22] Altman, Stuart, and Harvey Sapolsky. Federal Health Programs. Lexington Books, p. 145.

In 1982, the Senate Special Committee on Aging conducted two oversight hearings focusing on these problems. On March 10, 1982, the committee reviewed the application of the retrospective reasonable cost system to hospitals operating under the program. On September 10, 1982, the committee concluded a year-long investigation with a hearing focusing on problems related to the "reasonable cost" purchase and use of cardiac pacemakers under medicare.

1. Hospital Reimbursement

As Chairman Heinz noted in convening the March 10 hearing:

> Hospital expenditures—which account for three-fourths of all medicare benefits—have increased twice as fast as inflation since 1969. Total expenditures for hospitals under medicare exceeded $30 billion last year. The cost of a day's stay in a hospital has risen by 620 percent from $41 in 1965 to $256 in 1980. National hospital expenditures have increased by 717 percent from $13.9 billion in 1965 to $99.6 billion in 1980.

Most of the increase in hospital expenditure has been attributed to inflation, and the economic incentives inherent in medicare's retroactive "reasonable cost" reimbursement system. The system has resulted in the creation of excess bed capacity, overutilization, unnecessary surgery and other services, and the encouragement of a hospital's tendency to buy increasingly expensive and sophisticated equipment.

Hospital admissions per 1,000 have increased by 17 percent and patient days per 1,000 increased by 13 percent since 1965. Public expenditures have increased from 25 percent of national expenditures to 42 percent. The Federal share of public expenditures has increased from 50 percent in 1965 to 70 percent in 1980.[23]

The cost of administering the system through intermediaries has grown 150 percent in the last 5 years. The number of benefit payments has increased by nearly 20 billion from 13,782,553,000 in 1975 to 33,183,139,000 in 1980.[24] Representatives of Blue Cross testified much of this increase was related to the incentives created by the "reasonable cost" reimbursement system. In 1981, Blue Cross recovered $1.3 billion in savings to the program. The ratio of savings to audit cost was 26-1. In previous years, the ratio of savings to audit cost had never exceeded 7-1.

At the March hearing, representatives of the hospital industry expressed concern for the intrusion of the Federal Government into their industry and the burden of regulation associated with implementing "reasonable cost" determinations. One industry estimate attributed a quarter of the New York hospitals spending to the cost of complying with Federal regulations.

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[23] U.S. Dept. of Health and Human Services. Health Care Financing Review. Prepared by Robert M. Gibson and David R. Waldo. September 1981.

[24] Jacoby, Merrit. Personal letter to Senator John Heinz, Chairman, Senate Aging Committee. Dec. 20, 1981.

They complained the system is both too generous and too restrictive. The cost-based nature of the system provides a cushion to cover inefficiency but little in the way of positive incentives to providers. The cost-based system does not provide excess revenue to cover working capital, contingencies, and the replacement of equipment.

Hospitals have been compelled to collect whatever revenues they can from medicare, medicaid, and third-party payers and make up the shortfall in billings to commercial insurers and individuals. Over a 5-year period (1976–79) the difference between Government payment (cost) and private sector payments (charges) rose from $12 to $41 per patient day—an increase of 242 percent. The Health Insurance Association of America estimates some $3 billion in hospital costs were shifted from Government programs to the private sector in 1979.

Hospitals unable to shift costs because of their high percentage of medicare, medicaid, and charity cases face serious operating losses. Twenty-one hospitals in the city of Philadelphia reported operating losses in 1980. Their average medicare/medicaid case load was 61 percent.[25]

The hearing record supports the need for change in the current reimbursement system. As Senator Heinz said:

> In fact, it almost seems this system was designed to skyrocket costs and confuse honest providers with countless complicated regulations. What is needed is a system of positive incentives for cost containment. We must reform the payment system to deemphasize cost-based reimbursement and increase competition.

Thirty existing prospective reimbursement programs were identified at the hearing. A 1980 HCFA review of these programs indicates some have been successful in reducing hospital expenditures per patient, per day, per admission, and per capita.

Eight programs—in Arizona, Connecticut, Maryland, Massachusetts, Minnesota, New Jersey, New York, and Rhode Island—have reduced the rate of increase in expenses by 2 or more percentage points per year. In some cases the rate of increase has been restrained by as much as 6 percentage points.[26]

2. CARDIAC PACEMAKERS

On September 10, 1982, the committee convened a hearing to review the findings of a year-long investigation of the purchase and use of cardiac pacemakers under medicare. Medicare pays for 80 to 90 percent of all pacemaker procedures in this country. Estimates are that costs associated with hospitalization, surgical fees, pacemaker cost, and related medical procedures associated with pacemaker implantation, followup, and monitoring, total $10,000 to $18,000 per patient. About 150,000 people in the United States will receive pacemakers this year. When the costs associated with these anticipated implants are added to the costs of following and monitoring the 500,000 existing pacemaker patients in this country, total medicare costs will exceed $2 billion in 1982.[27]

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[25] Gleason, Gerald, chairman, Joint Health Cost Containment Committee, Philadelphia Chamber of Commerce. Personal letter to Senator John Heinz, Chairman, Senate Aging Committee. Feb. 23, 1982.

[26] U.S. Dept. of Health and Human Services. Hospital Prospective Payment For Medicare. Report to Congress, December 1982. p. 20.

The committee concluded the necessity or appropriateness of as much as half that total cost can be questioned. The elements forcing this conclusion include the following:

Unreasonable cost.—Pacemakers costing $600 to $900 to manufacture are being billed to hospitals (the direct purchaser) for $2,000 to $5,000. Hospitals, without any correlating expense, increase the cost by 50 to 150 percent and pass the total on to medicare, other third-party payers, and patients.

Overutilization.—There is increasing evidence that pacemakers are prescribed unnecessarily and overutilized. Estimates from physicians associated with medical centers across the country estimate 30 to 50 percent of all pacemaker implants are unnecessary. The most egregious example found involved two physicians who implant two pacemakers in each patient. The second pacemaker is justified as a precaution in the event the first fails. Allegations of overutilization are supported by national comparisons. The United States has a rate of pacemaker utilization more than twice that of any other nation in the free world.

Warranties.—Around 30 percent of all pacemaker operations in any given year involve replacement of the device. Most manufacturers offer replacement credit, figured into the cost of the device, that includes device replacement and the payment of "uninsured medical expenses."

The payment of "uninsured medical expenses" limits the manufacturer's exposure to that operative expense not paid by medicare or other third-party payers, regardless of fault, performance, or recall. In effect, the manufacturers have inappropriately succeeded in subordinating their responsibility for product liability to medicare. To the extent that replacement credits are offered for the devices, there is no method of tracing compliance and assuring payment to medicare.

Monitoring.—By every measure, frequency schedules, and payment rates adopted by medicare for followup and monitoring of pacemaker performance are generous. Since the manufacturers provide the essential equipment "free of cost," frequently set up the system, train the personnel, and provide medicare billing guidance; the only expense to the physician or clinic is the incremental use of staff. In the words of one pacemaker professional, "It's a lucrative business, followup on pacemakers. Medicare reimburses anywhere from 80 percent of $28 to $60, depending on a number of factors I can't figure out. The lowest reimbursement I've ever seen was 80 percent of $28. It takes the secretary over the telephone about 3 minutes." Another offered the following projection, "You can make a quarter of a million dollars doing this. I know a group here in New York, they have 400 pacemaker patients, 400, and they make a quarter of a million dollars."

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[27] U.S Congress. Senate. Special Committee on Aging. Hearing on Fraud, Waste, and Abuse in the Medicare Pacemaker Industry, 97th Congress, 2d session, Sept. 10, 1982. Washington, U.S. Gov. Print. Off., 1983. p. 2.

Kickbacks, consulting fees, rebates, and other improper inducements to do business.—Because of the excessive profitability of the industry, the essential comparability of products, and the intense competition found in the industry, a number of "creative marketing devices" have evolved. These include:

—Stock or stock options offered as a reward for "consulting" arrangements.

—Payments of $200 to $25,000 for "clinical evaluations" of new products.

—Direct cash rewards, in one case $150, for each of the manufacturer's pacemakers implanted.

—Liberal payments of "unreimbursed medical expenses" which in practice, often, amount to incentives to physicians to "write your own rebate."

—Vacations in the Caribbean.

—Fishing excursions to Alaska and the Gulf of Mexico.

—Ski trips to Colorado.

—Las Vegas gambling junkets.

—Expensive gifts, including gold-plated shotguns and gold watches.

—The "gift" of pacemaker accessories, including devices ranging in cost from several hundred to several thousand dollars, as an inducement to do business.

In the process of this investigation, the committee found most of the abuses present in the pacemaker industry to be notorious and longstanding. The General Accounting Office, Securities and Exchange Commission, Federal Bureau of Investigation, Federal Trade Commission, Veterans Administration, and committees of both Houses of Congress have initiated related inquiries into the performance, marketing, and competitiveness of pacemakers; questions of warranty, and/or persistent allegations of kickbacks, bribery, stock manipulation, and related criminality.

Despite these activities the problems persist. It appears the reason for this fundamental failure is related to the reimbursement system, the fragmentation of Federal responsibility, the failure to communicate findings even when the need for communication is recognized, and the absence of leadership in attacking these problems from the Department of Health and Human Services. Significantly, until this year, the one Government agency least active in identifying and attempting to remedy the problems within the pacemaker industry is the agency with primary responsibility, the Department of Health and Human Services.

In addition, the committee's investigation identified a number of significant professional and performance standards. These include the ability of the FDA to track pacemaker performance and protect medicare beneficiaries, questions relating to the professional preparation of pacemaker physicians, and their undue reliance on pacemaker salesmen. Among the services the pacemaker salesman performs are:

—Attending and assisting in about three-quarters of the pacemaker operations performed in this country.

—Training, or arranging for training of inexperienced physicians interested in initiating a pacemaker practice.

—Setting up and training personnel to operate pacemaker follow-up clinics.

—Providing medicare guidelines, billing codes, and frequencies, as well as specific advice on how best to manipulate the medicare program.

There are about 400 pacemaker salesmen in this country. Minimum salaries for most are about $50,000. Many salesmen earn several hundred thousand dollars a year. At least a dozen earn more than $1 million a year. In the words of one salesman, "The industry is totally unconcerned with price. Medicare reimburses and they just don't care. God bless them, I love it."

Chairman Heinz called for concentrated action in addressing the problems identified on September 10, 1982. The American Medical Association, the American College of Cardiology, the North American Society for Pacing and Electrophysiology, the Department of Health and Human Services, the Federal Bureau of Investigations, Securities and Exchange Commission, and Veterans Administration have all agreed to participate in this process.

Chapter 14

LONG-TERM CARE

During 1982, Congress continued to address issues associated with the delivery of long-term care. Legislation was introduced in the House and Senate to expand current services and restructure methods of service delivery and financing. Little action was taken, however, to reform what has become one of the most complex and costly problems facing Federal and State public policymakers.

Long-term care, broadly defined, is a range of services available to individuals who, because of a social, physical, or mental condition are unable to handle the tasks of daily living without assistance on an ongoing basis. Long-term care can be provided in an institutional or noninstitutional setting and may include a variety of health and social services such as nursing home care, home health care, adult day care, occupational and physical therapy, home-delivered meals, and homemaker assistance.

Demographic and economic projections for the cost and availability of long-term care services are sobering. The Social Security Administration projects that by the year 2000, the group most at risk of institutionalization—the over-85 population—will be 60 percent larger than it is today.[1] According to subsequent projections by the National Center for Health Statistics, the nursing home population can be expected to increase by 49 percent.[2] If the cost of providing both institutional and community-based services continues to increase as it has in the past, we may expect to confront a crisis in long-term care.

Federal and State health programs are currently designed to reimburse individuals and providers for either short-term acute care or long term, continuous (and typically institutionalized) care. A major issue in the delivery of long-term care is the tension between the design of the medicare and medicaid programs, which reimburse for the most costly services and the medical and social need for a continuum of care that includes community-based services.

Medicaid, the source of about 90 percent of all public funds spent on long-term care, provides coverage for a range of institutional services to the categorically or medically needy population.[3] The medicare program, on the other hand provides skilled services, such as home health care, for a finite period of time. It is neither intended nor designed to provide services to those in need of long-term care. Until recently, there has been little effort to support a publicly financed continuum of care through community-based services—an alternative that is less costly, usually preferred by patients and families, and often the most appropriate kind of care for those in need of long-term support. Partly because the medicare and medicaid programs are structurally biased to support the most costly forms of care, Federal, State, and personal budgets are suffering from the financial burden caused by excessive and inappropriate use of hospitals and nursing homes.

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[1] U.S. Dept. of Health and Human Services. Social Security Administration. Office of the Actuary, unpublished data, 1983.

[2] U.S. Dept. of Health and Human Services, Public Health Service, National Center for Health Statistics. Tables and Charts for Living Longer in the United States. 1982. p. 26.

[3] U.S. Dept. of Health and Human Services. Health Care Financing Administration. HCFA 81-20047, p. 5

Federal and State governments spend billions of dollars each year on long-term care. Yet individuals in need of care are required to exhaust their personal financial resources before they are eligible for a significant amount of public support. Meaningful reform on the national, State, and local levels will require a broader and more flexible distribution of these expenditures to encourage the delivery of adequate, comprehensive, and affordable long-term care services.

A. THE FUTURE NEED FOR LONG-TERM CARE SERVICES

1. Demographic Projections

Nursing home residents are typically limited in one or more activities of daily living, such as bathing, eating, or dressing. Projections for the number of individuals expected to suffer from limitations in activity is therefore a good indicator for the future need of long-term care services. In 1980, 1.8 million persons age 65 and over had limitations in one or more activities of daily living. In the year 2000, this number is expected to increase to 2.8 million and to 4.9 million by 2020. In other words, we may need to provide for three times as many individuals with limitations in daily living activities 40 years from now as we do today.[4]

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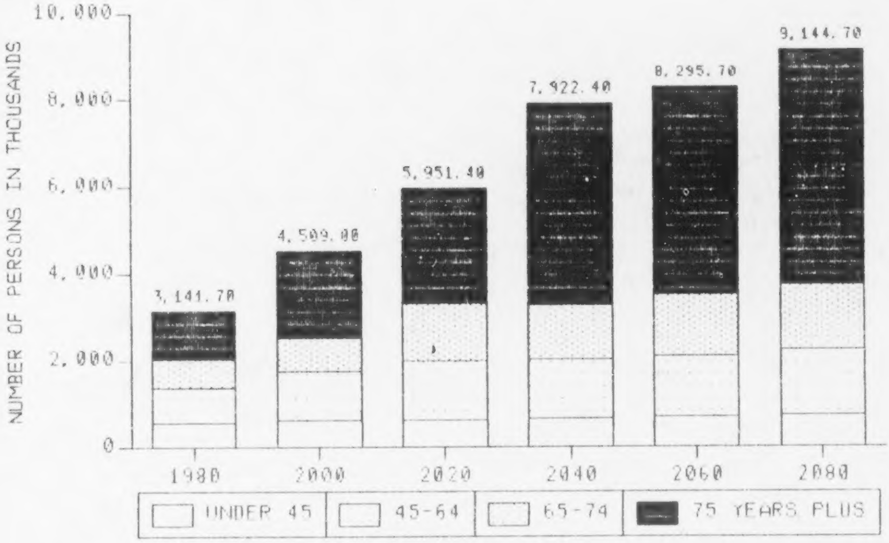
[4] U.S. Dept. of Health and Human Services. Public Health Service. National Center for Health Statistics. Tables and Charts for Living Longer in the United States. 1982. p. 23.

CHART 1

NUMBER AND DISTRIBUTION OF PERSONS WITH
LIMITATION OF ACTIVITIES OF DAILY LIVING BY AGE
UNITED STATES, 1980-2080



SOURCE: "TABLES AND CHARTS FOR LIVING LONGER IN THE UNITED STATES"
NATIONAL CENTER FOR HEALTH STATISTICS. TABLE 4, p. 23, 1982

The number of individuals with chronic disease further indicates the potential need for long-term care services; the onset of chronic disease may prevent individuals from functioning independently. Because incidence of chronic disease increases with age, the number of those who are likely to require long-term care services because they suffer from one or more chronic disease is also increasing. In 1980, 10.5 million individuals over 65 years old suffered limitations of activities due to chronic disease. This number is expected to increase by 50 percent to 15 million in the year 2000 and to 21.6 million in 2020. Consequently, by the year 2020, twice as many services than are currently available may need to be provided for those who are unable to function independently.[5]

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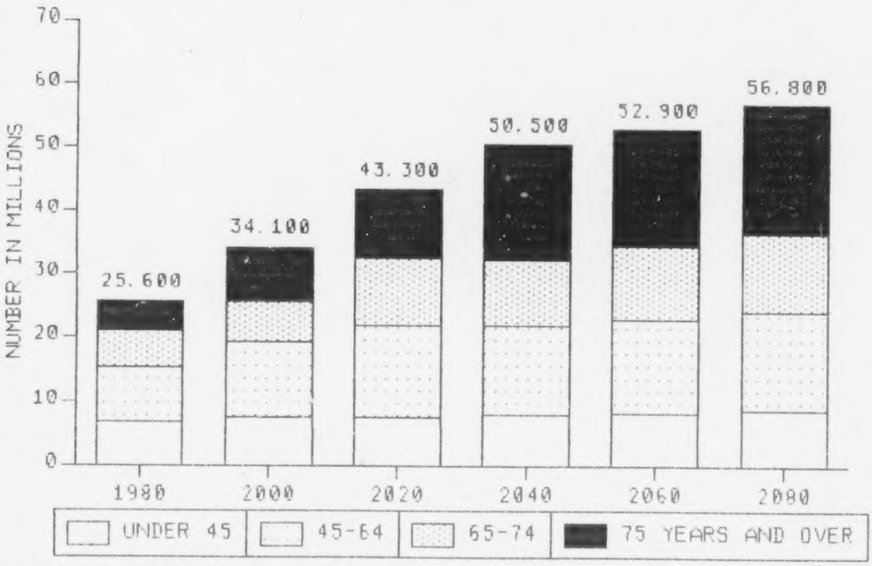
[5] Ibid. p. 22.

CHART 2

NUMBER AND DISTRIBUTION OF PERSONS WITH LIMITATION OF ACTIVITY DUE TO CHRONIC CONDITION BY AGE



SOURCE: "TABLES AND CHARTS FOR LIVING LONGER IN THE UNITED STATES" NATIONAL CENTER FOR HEALTH STATISTICS, TABLE 3, p. 22

The percentage of the total elderly population residing in nursing homes increases with age, from about 1.4 percent for those between 65 to 74 to more than 20 percent for the over-85 age group. Because the over-85 population—the group most at-risk of institutionalization—is expected to increase from 2.9 million in 1980 to 7.9 million in 2020, the nursing home population may be expected to increase accordingly. It should be noted that three times as many women as men will be filling these nursing home beds.[6] Chart 3 (now in the process of being revised by the National Center for Health Statistics) illustrates the projected growth of the nursing home population by age over the next 40 years.

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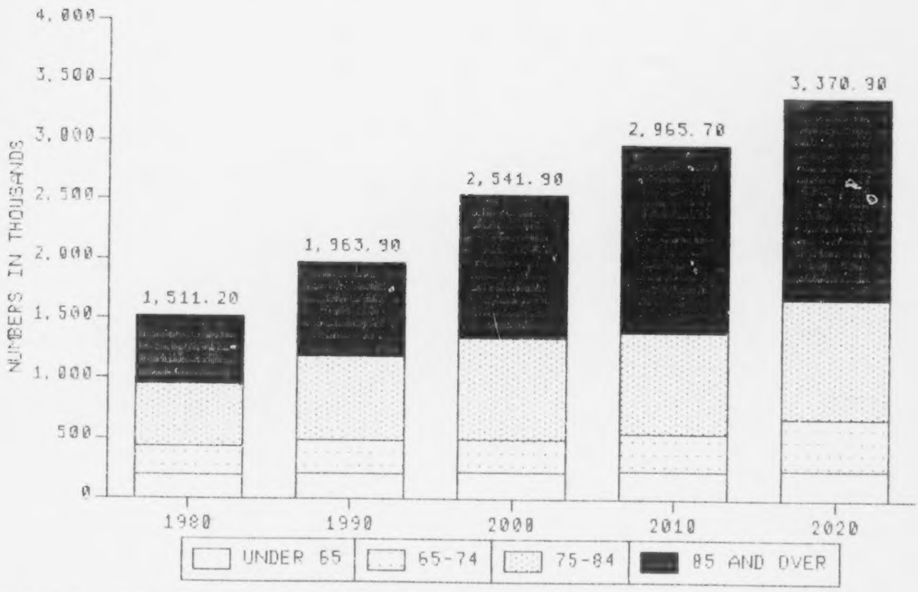
[6] Ibid. p. 26 and unpublished data.

CHART 3

NURSING HOME POPULATION PROJECTIONS



SOURCE: "TABLES AND CHARTS FOR LIVING LONGER IN THE UNITED STATES" NATIONAL CENTER FOR HEALTH STATISTICS, TABLE 7, p. 26

It is generally estimated that families now provide over 70 percent of all long-term care in this country. Most older people live near at least one of their children and are therefore able to depend on their assistance to enable them to remain relatively independent for as long as possible. This familial support has depended, to a great extent, on women at home who have the time to provide care and support for their older family members. Due to the expanding full-time participation of women in the work force, their continued ability to attend to older family members' needs will be greatly reduced in the foreseeable future.

By the year 1995, the Census Bureau estimates the number of widowed, never married, and single divorced will exceed the number of elderly married persons.[7] Consequently, members of the extended family or providers of formal long-term care services will need to compensate for the nonexistent spouse. As divorce and single living become more common, single family members may not have the time, money, or physical energy necessary to take care of their "very old" parents.

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[7] U.S. Dept. of Commerce. Bureau of the Census. Population Estimates and Projections of the Number of Households and Families, 1979–1995.

2. Economic Projections

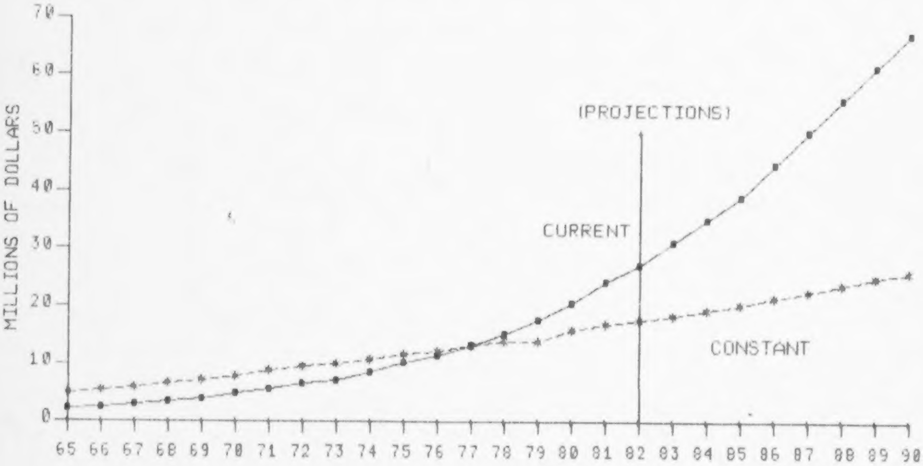
The number of individuals requiring some form of long-term care is increasing. The range of available services is expanding. The cost of providing these services has increased over the past few decades and there is every reason to expect a continued upward trend.

The total cost of providing long-term care services in 1982 is expected to exceed $40 billion—approximately 15 percent of total national personal health care expenditures.[8] This unpublished estimate computed by the Health Care Financing Administration includes: (1) Public and private expenditures for nursing homes; (2) expenses for long-term hospitals and estimates of expenses for long-term care provided in short-term hospitals; (3) medicare expenditures for home health care; and (4) the cost of providing care to those who are inappropriately backed-up in acute care hospital beds.

The largest proportion of long-term care dollars is spent in nursing homes. In current dollars, total nursing home costs for 1982 are estimated to be $27.1 billion, a 10.5-percent increase since 1981.[9] Nursing home costs are increasing faster than the overall rate of inflation.

CHART 4

NATIONAL NURSING HOME EXPENDITURES



SOURCE: WALDO, DANIEL AND ROBERT GIBSON, "NATIONAL HEALTH EXPENDITURES 1981", HEALTH CARE FINANCING REVIEW, SEPTEMBER, 1982, VOL. 4, NO. 1 and HEALTH CARE FINANCING ADMINISTRATION UNPUBLISHED DATA

Discounting inflation, between 1965 and 1985, the cost of nursing home care will have quadrupled. As a percent of real GNP, that is adjusted for inflation, nursing home costs have doubled from 0.35 percent of the GNP in 1965 to 0.71 percent of the GNP in 1981.[10]

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[8] U.S. Dept. of Health and Human Services. Health Care Financing Administration, unpublished data. 1983.

[9] Ibid.

In addition to nursing home care, recent years have witnessed a growth in alternative, community-based long-term care services. For fiscal year 1982, medicare expenditures for home health care were approximately $1.2 billion. Between 1974 and 1980, medicare reimbursement for home health care increased fivefold. Since 1980, the cost to medicare for home health services has increased by another 63 percent.[11] Even though home health's share of the total long-term care budget remains small, it has nonetheless become one of the fastest growing components of Federal health expenditures.

B. LONG-TERM CARE EXPENDITURES

The ability of individuals to make out-of-pocket expenditures for long-term care services is eroding. The exact amount paid annually by individuals and family members annually is not known. We do know, however, that private payments account for between 40 and 50 percent of the total cost for nursing home care. Furthermore, based upon the General Accounting Office's study of Detroit and Monroe County, N.Y., at least one-third of private payers "spend down" and become eligible for medicaid in less than 1 year after admission to nursing homes.[12]

State governments are finding payment for their share of long-term costs an increasing burden. Because the nursing home population is growing and the cost of providing nursing home care is increasing, medicaid has become one of the fastest growing components of State budgets. The medicaid program, the primary source for all public funds spent in long-term care, accounts for about 50 percent of total nursing home expenditures, including both public and private contributions. Of total expenditures reported by States for long-term care in 1980, medicaid paid between 55.5 and 90.7 percent of annual long-term care costs.[13] In many cases, medicaid absorbs between 10 and 15 percent of State operating funds. In an effort to restrain the growth of medicaid expenditures, States are beginning to provide a more appropriate range of less-costly services.

According to a report issued by the Intergovernmental Health Policy Project, many States have begun to adopt revisions in their medicaid programs to control their continuously increasingly contribution to long-term care costs.[14] Eleven States have adopted changes in this eligibility criteria for medicaid, including one State which has eliminated eligibility for persons not receiving cash assistance. Twenty-three States have adopted proposals to eliminate optional services that limit either the duration or scope of available benefits—including the elimination of provisions such as drugs, eyeglasses, and services such as home health and chiropractic care.

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[10] Ibid.

[11] Ibid.

[12] U.S. General Accounting Office. Entering a Nursing Home, Costly Implications for Medicaid and the Elderly. Report to the Congress of the United States by the Comptroller General. PAD-80-12. Nov. 26, 1979. pp. 38-40.

[13] Cohen Joel. The Urban Institute. Public Programs Financing Long Term Care. Working Paper 1455-18. 1983.

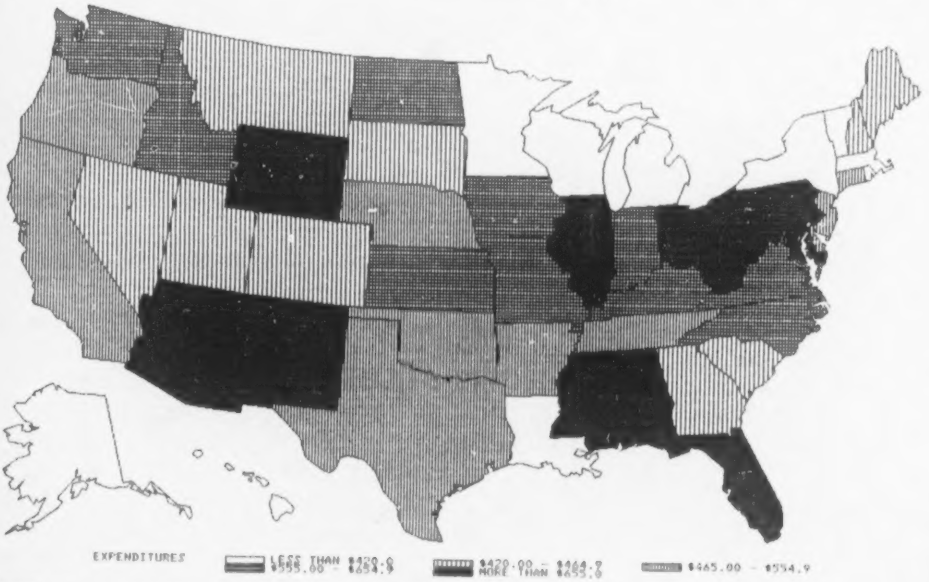
[14] The Intergovernmental Health Policy Project. George Washington University and State Medicaid Information Center, National Governor's Center for Policy Research. Recent and Proposed Changes in State Medicaid Programs, a Fifty State Survey. November 1982.

States have also begun to control, if not reduce, their portion of nursing home costs. Four States have eliminated or limited the number of nursing home reserved bed days. Twenty-four States made changes in nursing home reimbursement policies to reduce costs during 1981 and 1982. By the early part of 1981, 20 States and the District of Columbia had put in place some form of preadmission screening to limit nursing home use for medicaid recipients for whom other more appropriate forms of care could be found. Ten States have adopted proposals that limit or decrease nursing home reimbursement rates. Five States are implementing prospective reimbursement methodologies for nursing homes.

Because long-term care costs are beginning to consume an increasing portion of State budgets, many States are experimenting with the various ways in which they choose to spend Federal and State dollars.

While States may realize the value of alternative community-based programs, they nonetheless spend a considerable portion of dollars on nursing homes. The Urban Institute has noted the variance in per capita expenditures between States, as indicated in the following map:

1980 PER CAPITA EXPENDITURES
FOR LONG-TERM CARE



SOURCE: DERIVED FROM TABLE I-2, URBAN INSTITUTE, PUBLIC PROGRAMS FINANCING LONG-TERM CARE 1983. P4.

Differences in per capita expenditures can be attributed to a number of factors. Primarily, variations can be attributed to long-term care services covered, and State medicaid reimbursement limits. Other differences may include the use of preadmission screening, alternative community-based services, the number of providers and available services, and regional price differences.

C. FEDERAL PROGRAMS THAT SUPPORT LONG-TERM CARE

Programs which support the majority of long-term care services are funded by medicare, medicaid, title XX of the Social Security Act, and title III of the Older Americans Act. There are portions of other programs which may support long-term care such as congregate housing (discussed in another chapter), but their contribution is relatively small. Efforts to pool the resources of these various programs to create a coordinated, long-term care system for the chronically ill who have multiple service needs, have been hampered by the dissimilar eligibility requirements and program guidelines, accessibility difficulties, and the institutionalization bias.

The major public support for long-term care, medicaid, is clearly directed toward nursing home care: Nursing home services account for about 40 percent of total State and Federal medicaid costs. By contrast, only about 1 percent of medicaid dollars and 2 percent of medicare's total expenditures are directed toward home health services.[15]

1. Medicare: Title XVIII of the Social Security Act

Although medicare does provide benefits for home health, the intent of the program is to provide skilled services to the elderly in their place of residence rather than health-related social support services for the chronically ill. Services which assist individuals in activities of daily living (i.e., homemaker services, personal care services) are specifically excluded from coverage unless the patient requires some form of skilled care (nursing care, physical or speech therapy) at the same time.

Because medicare home health service are directed toward homebound individuals in an acute situation calling for temporary care, they do not actually serve as a continuing source of long-term care for the chronically ill elderly.

Medicare provides some coverage for nursing home use, however, the skilled nursing home benefit is restricted to 100 days.

The 1982 Tax Equity and Fiscal Responsibility Act (Public Law 97-248) revised eligibility requirements for skilled nursing facility care. Prior law required a 3-day prior hospital stay before a beneficiary could become eligible for medicare reimbursement for skilled nursing facility care. This provision eliminated this requirement at such time that the Secretary of the Department of Health and Human Services determines that this measure will not lead to increased costs. The provision allows limitations to be placed on eligibility and the scope of services for persons covered without a prior hospital stay.

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[15] HCFA 81-20047, pp. 19-20.

2. MEDICAID: TITLE XIX OF THE SOCIAL SECURITY ACT

The medicaid program provides matching funds to States to finance medical care for low-income persons who are in families with dependent children or who are aged, blind, or disabled.

In contrast to medicare, medicaid benefits can be used to provide a more complete range of services. Medicaid's coverage for noninstitutional care includes home health care and, at State option, personal care and adult day services. States are required to provide home health services to medicaid eligible persons who are entitled to benefits in a skilled nursing facility. States may also include a personal care provision under their State medicaid plan which would allow for health-related support services when prescribed by a physician and supervised by a registered nurse. Adult day health services, which include medical and social care, as well as transportation, are also permissible. In States with medically needy programs, individuals may qualify for medicaid in nursing homes because the cost of their basic living needs in the nursing home is considered a "medical" expense, and depletes their income more rapidly. In the 15 States without medically needy programs, some individuals may receive medicaid benefits in nursing homes but not in the community because income levels for medicaid eligibility for outpatient care are more restrictive. Federal law was substantially changed during 1981 in response to many of these problems. (See Federal legislation, section 2176, 1981 Omnibus Budget Reconciliation Act.)

3. TITLE XX—SOCIAL SUPPORT SERVICES

Prior to 1982, title XX of the Social Security Act authorized payments to States for a wide range of community social services for individuals and families. The title XX program was designed to prevent or reduce dependency, prevent neglect and abuse, and prevent or reduce inappropriate institutionalization. Types of services under this program included: Homemaker services, family planning, preparation and delivery of meals, transportation, counseling, adult day care, and supportive health services.

The Omnibus Budget Reconciliation Act of 1981 amended the existing title XX program to establish a social services block grant to States. Under the new block grant legislation, income eligibility and targeting provisions for serving certain population groups were repealed. Under the fiscal year 1983 continuing resolution (Public Law 97-377), programs funded under the social services block grant will be continued through September 30, 1983, at the authorized level of $2.45 billion, a decrease of $2.9 billion from 1981. With this decrease, the ability of States to provide socially oriented long-term care services may be significantly eroded.

4. THE OLDER AMERICANS ACT: TITLE III

A variety of home- and community-based services are also available under title III of the Older Americans Act. Under this program, formula grants are made to State agencies on aging for planning, coordination, and advocacy for programs for older persons. Under the 1981 amendments to the act, State agencies are required to spend an "adequate portion" of title III funds on in-home services (such as homemaker, home health aides, visiting, telephone reassurance, and chores), access (transportation and outreach), and legal services.

Funding for the Older Americans Act programs was reduced for fiscal year 1982 by approximately 4 percent from the fiscal year 1981 funding level of $760.4 million. The 1983 continuing resolution provides for a $37-million increase in nutrition programs over the fiscal year 1982 level. The increase represents $32.3 million more for congregate nutrition and $4.7 million additional for home-delivered meals.

Title III of the Older Americans Act enlists State aging personnel in long-term care patient's rights by requiring that a State agency establish a long-term care ombudsman program to investigate the complaints of institutional residents and monitor Federal, State, and local laws regarding long-term care facilities.

D. LONG-TERM CARE REFORM

In response to the rising concern over the cost, appropriateness, and the quality of care provided in institutional settings, the Federal Government is encouraging the development of alternative community-based services and evaluating methods to reform problems already evident in American nursing homes.

1. Nationwide Long-Term Care Ombudsman Program

Based on State ombudsman reports submitted to the Commissioner of Aging in compliance with reporting requirements of the ombudsman provision of the Older Americans Act for fiscal year 1981, the Administration on Aging has issued a report which describes the function of State ombudsman programs and identifies major issues and problems found by ombudsmen in their work in State nursing homes.

Nationwide, States report 472 local or regional ombudsman programs, an increase of 251 programs since 1980. Fifteen States have enacted comprehensive ombudsman legislation as of September 1982, containing provisions that define and include program responsibilities, organization and location of the program, access to facilities and records, reporting and confidentiality. Some of the major activities of State ombudsmen include response to individual complaints, training and certifying staff and volunteers, maintaining State complaint documentation systems, information dissemination, and providing testimony and recommendations on legislation and regulations pertaining to institutional long-term care.

Twenty-three States reported poor quality of care, neglect, and/or abuse as a significant problem in nursing homes. Twenty-two States mentioned gaps in the continuum of care, a lack of alternatives to institutional care, and a lack of community support systems. The impact of budgetary restraints on nursing home care and the consequential effect on eligibility standards and provision of services was reported in 15 States. Other issues mentioned include: Discrimination against medicaid recipients in admission, discharge, or transfer practices (10 States); need for new or improved State residents' rights laws (19 States); inadequate staff training (17

States); need for expanded/improved adult protective services and/or need for enactment or strengthening of abuse and/or abuse reporting laws (23 States); need to maintain existing nursing home standards and strengthen and better enforce them, especially through the imposition of intermediate sanctions (17 States).[16]

2. DEMONSTRATION PROJECTS AND RESEARCH

The National Institute on Aging has awarded two 5-year grants for fiscal year 1982, with a first year operating budget for both programs totaling $1.65 million. The grantees are the Philadelphia Geriatric Center (in collaboration with the University of Pennsylvania and the Medical College of Pennsylvania) and the Albert Einstein College of Medicine in New York City. The Philadelphia consortium is researching a variety of NIA funded research projects including studies of urinary tract infections, senile dementia, and exercise. The Albert Einstein College of Medicine will conduct research in the treatment, diagnosis, and management of senile dementia, osteoarthritis, and the causes of injury precipitated by accidental falls. Forty-one medical schools have indicated an interest or submitted applications for similar grants from the National Institute on Aging.

The Robert Wood Johnson Foundation has awarded $5.5 million in grants to 11 grantee universities and 12 nursing homes for 4 operating years. Grants of up to $500,000 each to the schools were provided to develop strong affiliations between nursing schools and nursing homes in order to improve the quality of care available to patients in the homes. The foundation's nursing home training program is intended to bring nurses trained in geriatrics into nursing homes, improve methods of staff retention, and encourage nursing students to specialize in service to older people.

The Kellogg Foundation is supporting two major projects that affect the delivery of long-term services. Using the long-term care information system developed at Michigan State University in 1980, the foundation has awarded three grants to implement, extend, and evaluate the use of this information form. Michigan State is working on a grant to expand the use of the form in nursing homes, home health agencies, and hospitals. Cornell University Medical Center will disseminate the form nationally, and will train long-term care personnel to utilize the form as a method of preadmission screening. Burke Rehabilitation Center will implement the same system in Westchester County and is then charged to evaluate the effectiveness of this long-term care information system.

Approximately $1.9 million was provided for the three projects, the largest proportion going to Burke for its 4½-year program. In addition, the Kellogg Foundation has established a five-part grant to recruit, train, and place nurse practitioners for geriatric care. Each of the five university grantees will set up classes to train nurses in geriatric care. Nurses will be given a leave by the nursing home so that they may attend classes at the university. Once they have completed the 12-month program, the nurses will receive a certificate of accomplishment. It is expected that the nursing home will continue to pay half of the nurses' salary during the leave, with the foundation paying the other half. The foundation has provided approximately $2.7 million for this 3-year grant.

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[16] U.S. Dept. of Health and Human Services. Administration on Aging. Long-Term Care Ombudsman Program. 1982.

3. ADMINISTRATION ON AGING LONG-TERM GERONTOLOGY CENTERS

The Administration on Aging is providing core support for 9 multioperational centers in 8 of the 10 regions. After the initial award is granted for the first year of planning, institutions may compete for a 4-year operational award. Currently, 3 centers are being funded for the initial planning stage, so that, by the end of this fiscal year. AoA expects to have long-term care gerontology centers established in all 10 regions. The purpose of these centers is to develop models of practice and service delivery systems, to provide ongoing technical assistance, and to encourage medical and nursing students and practitioners to work with older persons and help those already working with the elderly upgrade their skills. Each center must form affiliations with skilled nursing facilities (SNF's), intermediate care facilities (ICF's), and home health agencies so that present and future practitioners can learn of the continuum of long-term care services that may be available to older people.[17]

4. SOCIAL HEALTH MAINTENANCE ORGANIZATIONS (S/HMO's)

In April 1980, the University Health Policy Consortium (UHPC) at Brandeis University's Heller School was awarded a 3-year planning and development grant from HCFA to define the operational characteristics of the S/HMO model, to seek and select agencies to sponsor demonstrations of the model, to prepare definitions, data reporting plans, and benefit packages. During the first year, the staff developed the size and case mix criteria, an initial benefit package, the scope of medicare and medicaid waivers required to support the S/HMO, and a general estimate of costs based on current national cost and utilization profiles. During the second year, operational specifications were defined, and criteria were developed for test site selection. By early 1982, four sites were selected: Metropolitan Jewish Geriatric Center, Brooklyn, N.Y.; Kaiser-Permanente Medical Care Program, Portland, Oreg.; Ebenezer Society and Group Health Plan, Minneapolis, Minn.; and Senior Care Action Network (SCAN), Long Beach, Calif.

The national demonstration project has achieved a full complement of test sites, specified most of the requirements for operations, coordinated medicare and medicaid waiver submissions for three of the four sites, and obtained additional funds from foundations to support the project. Brandeis is currently negotiating with HCFA and State medicaid agencies to resolve issues concerning rates and risk-sharing arrangements.

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[17] U.S. Dept. of Health and Human Services. Office of Human Development Services. Administration of Aging and the Association of American Medical Colleges. The Long-Term Care Gerontology Program: First Annual Yearbook (October 1, 1980–September 30, 1981), 1982.

5. THE NATIONAL LONG-TERM CARE CHANNELING DEMONSTRATION PROJECTS

The Department of Health and Human Services (DHHS) has funded a major demonstration to test the feasibility and cost-effectiveness of an alternative community-based long-term care service delivery concept that integrates health and social services. Participating States are Florida, Kentucky, Maine, Maryland, Massachusetts, New Jersey, New York, Ohio, Pennsylvania, and Texas. The channeling program provides community-based long-term care services to people 65 and older who are functionally impaired, unable to manage the essential activities of daily living on their own, and lack adequate informal supports.

There are two variants of channeling that will be tested in the demonstration. The first, the basic case management model, superimposes a coordinating and accountability mechanism (case management) on the present system of long-term care services. The second, the financial control model, modifies the basic model to address issues of cost control and strengthen the ability of the project to access needed services.

The design and planning phase of the projects has been completed. The basic case management model is being tested in five sites, all of which began operation in early 1982. Five additional steps where the financial control model is being tested were implemented in May and June 1982. A uniform evaluation of all 10 sites using a randomized experimental design is being conducted during the 4-year demonstration program.

6. MEDICAID WAIVERS FOR HOME CARE AND COMMUNITY-BASED SERVICES

Based to a large degree on the Pepper/Waxman Medicaid Community Care Act introduced in the 96th Congress, section 2176 of the 1981 Omnibus Budget Reconciliation Act (Public Law 97-35) authorizes the HHS Secretary to waive medicaid statutory requirements in order to enable a State to cover a wide range of home- and community-based services. Perhaps the major significance of this legislation is that, for the first time, a range of both health and personal care services as well as case management are specifically authorized in legislation, thereby, giving legislative recognition of the social as well as the medical aspects of long-term care under the aegis of the medicaid program.

Section 2176 emphasizes targeting services to individuals who would otherwise be institutionalized and coordinating services. Under the new law, a State can provide home- and community-based services, pursuant to a written plan of care, to individuals who have been determined to otherwise require skilled nursing facility (SNF) or intermediate care facility (ICF) services which would be reimbursed by medicaid.

Services which may be provided (in addition to those already authorized under medicaid) include:

—Case management (defined in the conference report as a system under which responsibility for locating, coordinating, and monitoring a group of services rests with a defined person or institution).

—Homemaker/home health aide and personal care services.

—Adult day health.

—Habilitation services (defined in the conference report as encompassing both health and social services needed to insure optimal functioning of the mentally retarded and developmentally disabled).

—Respite care services (defined in the conference report as those given to an individual unable to care for himself which are provided on a short-term basis because of the absence or need for relief for those persons normally providing such care).

—Other services requested by the State and approved by the Secretary.

Room and board services are excluded from coverage under the waiver.

Section 2176 permits States to set limitations on services provided to individuals which may vary from those offered to other medicaid eligibles. This allows flexible eligibility requirements.

Section 2176 specifies that a waiver granted under this section shall be for an initial term of 3 years. At the request of the State, it shall be extended for additional 3-year periods unless the Secretary determines that the required assurances have not been met in the preceding period. The past waiver authority only allowed for research and demonstration projects related to community-based and personal care services not contained in a State plan. The newly streamlined waiver process requires the Secretary to act on requests within 90 days of submission. Section 2176 now allows States to obtain waivers to implement these types of services and waives the requirement that the services must be offered statewide.

As of December 31, 1982, the Health Care Financing Administration received 51 requests from 34 States. Of the 51 received, 30 have been approved, 5 disapproved, 2 withdrawn, and 14 are still pending.

Applications for waivers for medicaid home and community-based services may be submitted to cover care for the aged and disabled, the mentally ill, and the mentally retarded. Some services that have been approved in accepted applications for the aged and disabled are meals-on-wheels, nonmedical transportation, electrical monitors, emergency response systems, companions, chore, day care, mental health counseling in the home, housekeeper, hospice, minor home adaptions, and foster home services, to name a few.

The response of over 60 percent of the States to the section 2176 initiative indicates a strong, concerted effort supported by all levels of government to develop alternatives to nursing home use and to create a mechanism that will assist the elderly and disabled in finding the most appropriate level of care in a system with some cost control.

E. LEGISLATIVE INITIATIVES IN THE 97TH CONGRESS

1. Long-Term Care Reform

(A) THE NONINSTITUTIONAL ACUTE AND LONG-TERM CARE SERVICES FOR THE ELDERLY AND DISABLED ACT (TITLE XXI)

First introduced in the 96th Congress, this bill was reintroduced in the 97th Congress as S. 861 by Senators Packwood and Bradley and a number of additional cosponsors. It would add a new title XXI to the Social Security Act providing for a 6-year demonstration of acute and long-term care services for persons aged 65 and over and for persons with chronic disabilities.

It provides for 10 statewide demonstrations, one in each Federal region, to test the implementation of an organized system of noninstitutional acute and long-term care services. S. 861 would combine all noninstitutional long-term care services offered under medicare, medicaid, and title XX, social services, into a new title XXI of the Social Security Act. It would also provide reimbursement for additional services such as respite care, adult day care, home-help services, and service coordination. A preadmission screening assessment team (PAT) would be made responsible for conducting a health status and functional assessment of each person seeking long-term care services and developing an appropriate plan of care for each person. S. 861 would also require that a copayment system be tested for individuals participating in the program, and that three different reimbursement methodologies (fee schedules, prospective reimbursement, and capitation payments) be tested under the project.

A companion bill (H.R. 3355) was also introduced in the House of Representatives.

(B) MEDICARE LONG-TERM CARE ACT OF 1982

Introduced in June 1982, by Representative Conable, ranking minority member of the House Ways and Means Committee, this bill would amend title XVIII (medicare) of the Social Security Act to establish a voluntary program to provide long-term care benefits for aged and disabled individuals who elect to enroll under such program. The program would be financed from premium payments by enrollees together with contributions from funds appropriated by the Federal/State governments. The bill would provide for the creation of community long-term care centers and States long-term care agencies as part of a new administrative structure for the organization and delivery of long-term services. Benefits included in this act are: (1) Home health services; (2) homemaker services; (3) nutrition services; (4) long-term institutional care services; (5) day care and foster home services; and (6) community mental health center outpatient services.

The bill would require community long-term care centers to provide covered benefits to eligible individuals, evaluate and certify the needs of individuals in order to allow them to maintain an independent living arrangement, maintain a continuous relationship with individuals receiving benefits, provide opportunities for individuals and/or families to participate in the functions of the act, and provide a system to inform the public of available services.

The bill would establish a Federal long-term care trust fund. It would direct the Secretary of DHHS to consult with organizations representing the chief executives of the various States, and other interested parties, to develop and make available to the long-term care centers methods of obtaining payment for the benefits covered on a prospective basis.

Neither of these long-term care reform legislative packages were enacted during the 97th Congress.

2. EXPANDED HOME HEALTH BENEFITS

(A) LEGISLATION

(1) Community Home Health Services

Representative Molinari introduced H.R. 5531 in 1982, to encourage the establishment of home health programs. The bill would amend the Social Security Act to provide expanded coverage of home health services under the medicare and medicaid programs. The bill would amend the Internal Revenue Code of 1954 to provide credit for households with certain qualified disabled dependents. The bill would also amend the Public Health Services Act to authorize the Secretary of Health and Human Services to make grants to public and nonprofit private entities, and loans to proprietary entities to establish and operate home health programs. The bill, with 34 cosponsors was referred to the House Energy and Commerce and Ways and Means Committees.

(2) The Community Home Health Services Act of 1981

The Community Home Health Services Act of 1981, introduced in January 1981 by Senator Hatch and others, would amend the Public Health Services Act to authorize grants to public and nonprofit private entities and loans to proprietary entities through fiscal year 1984 for establishing and operating home health programs. The legislation provides that grants and loans for these programs only be given to underserved areas (areas without home health services), with special consideration given to areas with inadequate means of transportation. Funds would also be provided for home health personnel training, with special consideration given to programs providing training for persons 50 years and older.

The bill would amend medicare to expand the care requirements that a person must have to qualify for the medicare home health program to include homemaker-home health aide, occupational therapy, and respiratory therapy. These services would be allowed as qualifying services only if the individual would require institutionalization in their absence. The bill would also allow the Secretary to expand the definition of organizations eligible to receive medicare and medicaid reimbursement for the provision of home health services as long as the organizations met certain requirements.

Finally, the legislation would amend title XIX of the Social Security Act (medicaid) by requiring States to include as a home health service under a State plan any item or service that is included as a home health service under medicare.

The bill was reported by the Senate Committee on Labor and Human Resources in January 1982. Because the bill would amend medicare and medicaid, it was sent to the Senate Finance Committee for further consideration, but was not acted upon.

(B) REPORT BY THE GENERAL ACCOUNTING OFFICE ON HOME HEALTH BENEFITS

In December 1982, the Government Accounting Office submitted a report in response to a request by Chairman Hatch of the Senate Committee on Labor and Human Resources. Senator Hatch asked GAO to evaluate the potential effects of expanding home health benefits. GAO assessed existing evaluations of programs and demonstration projects that offer expanded home health services primarily to older people and reported:

> GAO found that when expanded home health care services were made available to the chronically ill elderly, longevity and client-reported satisfaction were improved. These services, however, did not reduce nursing home or hospital use of total service costs.[18]

GAO also stated that further research is needed to investigate the effects of expanded home health care on those most at-risk of institutionalization and also on hospital admission and readmission rates and lengths of stay.

3. Tax Credits

(A) LEGISLATION

On April 22, 1982, Senator Heinz introduced S. 2424, a bill to amend the Internal Revenue Code of 1954 to allow a credit against tax for expenses incurred in the care of elderly family members. The bill would provide tax credits for a portion of expenses incurred for support services such as home health aide services, adult day care, respite care, nursing care, and medical- or health-related equipment and supplies. Hearings were held on May 21, 1982, with John E. Chapoton, Assistant Secretary for Tax Policy, testifying on behalf of the Department of the Treasury. Mr. Chapoton's testimony indicated the Department's opposition to S. 2424. In response to his testimony, Senator John Heinz and Senator Bob Packwood, a cosponsor of the bill, told the Assistant Secretary that a number of committee members were interested in the bill. Senator Heinz explained:

> It has one very simple goal, which is to improve incentives in our health care system to encourage less expensive and more appropriate levels of care than institu-

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[18] U.S. General Accounting Office. The Elderly Should Benefit From Expanded Home Health Care But Increasing These Services Will Not Insure Cost Reductions, Report to the Chairman of the Senate Committee on Labor and Human Resources. IPE-83-1, Dec. 7, 1982.

> tionalization and to support families in their efforts to maintain the independence of their elderly family members.[19]

The bill was not reported from the Senate Finance Committee. Additional legislation was introduced during the 97th Congress that would provide a flat tax credit of $100 to $500 for families taking care of an elderly relative in the family home.

(B) REPORT BY THE GENERAL ACCOUNTING OFFICE

In response to a request from Senator John Heinz, chairman of the Senate Special Committee on Aging, GAO issued a report on August 27, 1982, to assess the use of tax credits for families who provide health care to disabled elderly relatives. Chairman Heinz asked GAO to determine the following: (1) What financial costs do families incur in caring for their elderly disabled relatives; (2) what tax relief programs currently assist families in providing care; (3) have these tax relief programs been effective; and (4) what issues should be considered in assessing the merits of legislative proposals for tax credits? GAO reported:

—Families are the predominant providers of long-term care for the elderly; however information on the cost of this care is inadequate.

—Several States have proposed tax relief legislation to assist families, but few have actually enacted such legislation.

—At the Federal level, tax provisions exist to offset some expenses, but because of rigid eligibility requirements, few families use them.

—Current data collection provisions do not allow the Congress to determine how effective the new legislation might be, thus posing significant problems for projecting costs and determining the most appropriate means to achieve the goals of tax credit legislation.[20]

4. NURSING HOME SURVEY AND CERTIFICATION: PROPOSED REGULATIONS

(A) PROPOSED REGULATIONS FOR SURVEY AND CERTIFICATION

On May 27, 1982, the Department of Health and Human Services (DHHS) issued proposed changes to the regulations for the survey and certification of nursing homes. In an effort to eliminate an unnecessary and burdensome paperwork load and inflexible survey cycles, the Department issued the following changes: (1) Elimination of periodic staffing reports; (2) elimination of mandatory resurveys; (3) elimination of time-limited agreements; (4) elimination of the automatic cancellation clause; (5) elimination of the annual survey requirements; (6) allow the Joint Commission for the Accreditation of Hospitals (JCAH) "deemed status" for SNF's, ICF's (excluding ICF's for the mentally retarded); and (7) consolidation of the medicare and medicaid survey and certification provisions. In response to these proposed regulations, patient advocates, State licensing and certification agencies, aging and consumer groups, many members of the House and Senate Aging Committees, and other Members of Congress, expressed their opposition to these regulations. Regardless of intent, their implementation would result in reduced Federal and State oversight capabilities. For over a decade, the Federal Government has assumed responsibility for the delivery of quality of care to the 1.3 million nursing home residents. Opponents to these proposed changes raised the following questions:

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[19] U.S. Congress. Senate. Finance Committee. Miscellaneous Tax Provisions Hearings, 97th Cong., 2d Sess., May 21, 1982. Washington, U.S. Govt. Print. Off., 1982.

[20] U.S. General Accounting Office. Assessment of the Use of Tax Credits for Families Who Provide Health Care to Disabled Elderly Relatives. Report to the Chairman, Special Committee on Aging. GAO/IPE-82-7, Aug. 27, 1982.

—Would the proposal to grant the JCAH "deemed status" satisfy the statutory mandate that any accreditation decision provides reasonable assurances that the conditions of participation for skilled nursing facilities are met?
—Does the past history of JCAH deemed status accreditation for hospitals justify expanding the program to other health care providers?
—Who will enforce nursing home standards under JCAH deemed status certification?
—Will the policy of nondisclosure of JCAH survey information make a State enforcement program impossible?
—Will a 2-year cycle for nursing homes provide adequate monitoring capability?
—Will the proposed regulations actually achieve the explicit goals of reducing the burden of paperwork and increasing the flexibility of surveyors?

(B) EARLY CONGRESSIONAL REACTION

On June 15, 1982, the Senate Special Committee on Aging sent a letter to the Secretary of the Department of Health and Human Services detailing modifications to the regulations that were essential if the Federal Government intended to continue to assure quality nursing home care. Senators Moynihan and Pryor introduced resolutions to request the Secretary to withdraw the regulations.

On July 19, 48 House Members sent a letter to the Department requesting that the regulations be withdrawn. Four Representatives introduced legislative resolutions to the same effect.

(C) THE GAO PRELIMINARY REPORT ON NURSING HOME CARE

On July 15, 1982, GAO issued a preliminary report, "Patient Characteristics and State Medicaid Expenditures for Nursing Home Care" to Chairman Waxman (House Subcommittee on Health and the Environment, Committee on Energy and Commerce), evaluating State nursing home expenditures and characteristics of patients as they are relevant to the proposed changes in procedures for the survey and certification of nursing homes. GAO reported:

> * * * patients entering nursing homes over the past several years are increasingly dependent or disabled; this trend is likely to continue. A more disabled nursing home population may imply a need for more extensive, and potentially more costly care.

> States are finding it difficult to pay the escalating cost of this care and are taking steps to reduce their nursing homes expenditures. Since more than half of the increases in expenditures are a result of inflation, States are cutting reimbursement rates, freezing bed supply, and taking other actions that may change both the quality of nursing home care and patients' access to it.[21]

In the conclusion, the GAO report states:

> Since the increased demand for potentially more costly services is occurring at the same time as expenditures for care are being reduced, it is crucial that inspection and certification procedures for nursing homes be adequate to insure that facilities meet the health and safety standards required by the law.[22]

(D) HEARING: THE SENATE SPECIAL COMMITTEE ON AGING

On July 15, 1982, the Senate Special Committee on Aging held a hearing, "Nursing Home Survey and Certification: Assuring Quality Care." The committee convened to assess the impact of the Department of Health and Human Services (DHHS) proposed regulations and to outline constructive nursing home regulatory reforms which would provide a more flexible inspection and enforcement program and enhance the Federal Government's ability to maintain effective oversight in nursing home survey and certification.

Carolyn Davis, Chief Administrator of the Health Care Financing Administration testified on behalf of the Administration's proposed regulation changes. Other witnesses included representatives of a State attorney general's office, the 56 State and territorial health officers, the western region's State licensing officials, national, State, and local aging groups, and consumer and professional groups—all of whom were unanimous in opposition to the proposed rule changes. Opponents were concerned that the proposals would add to duplicative paperwork, remove essential enforcement tools from an already overburdened system, and shift the certification role to a private body with neither public accountability nor enforcement authority. The representative of State and territorial health officers confirmed that each of the State and territorial health officers opposed these regulations. Representatives from the nursing home industry also testified. Although basically supportive of the proposals, they recognized that the proposed rule changes need extensive revision.

In the opening statement, Senator Heinz told representatives from the Administration that he did not support the proposed regulations:

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[21] U.S. General Accounting Office. Preliminary Findings on Patient Characteristics and State Medicaid Expenditures for Nursing Home Care. Report to the Chairman, House Subcommittee on Health and the Environment of the Committee on Energy and Commerce. GAO/IPE-82-4, July 15, 1982, p. 2.

[22] Ibid., p. 13.

> These proposals before us will strip the nursing home inspection program of its ability to monitor and enforce the established basic standards of nursing home care.[23]

The ranking minority member, Senator Lawton Chiles, also expressed his opposition to the proposed regulations, noting in particular the "deemed status" provision:

> I am particularly concerned about the proposal to grant deemed status certification for Federal funding of nursing homes to the Joint Commission on Accreditation of Hospitals. I fear that what this proposal basically amounts to is the Federal Government saying that nursing homes can and should regulate themselves, and that the Federal Government should continue paying billions of dollars to nursing homes every year for care of the elderly without asking questions or checking on the kind of care they are getting.[24]

Chairman Heinz told witnesses that based on what he had heard from all committee members at the hearing, the Administration had little if any support for the regulation, particularly the provision to grant "deemed status" to the JCAH.

As a followup to the hearing, all 15 committee members signed a joint letter to the Secretary of HHS in which they urged the Administration to withdraw the proposed regulations in their current form.

(E) LEGISLATIVE RESPONSE

The 1982 Tax Equity and Fiscal Responsibility Act included a provision which prevents the proposed regulations from being implemented for 6 months following enactment to provide opportunity for further review, revision, or withdrawal. The Department is instructed to consult with Congress, the General Accounting Office, groups representing nursing home residents, State survey and certification agencies, and nursing home operators, prior to resubmitting the regulations.

In addition, Senator Lawton Chiles, ranking minority member of the Senate Special Committee on Aging, included an amendment to the first continuing resolution bill of 1982 to extend the nursing home regulations moratorium an additional 120 days so that Congress would have more time to work out a fair compromise.

On August 3, 1982, Representative John Dingell introduced H.R. 6916, the National Nursing Home Standard Act that would: (1) Establish a commission to examine existing health and safety requirements of the medicare and medicaid requirements for SNF's and ICF's; (2) recommend changes for Federal and State governments in assuring quality of care; (3) to make specific recommendations for improving existing regulations. The proposed bill would also prohibit the Secretary of HHS from promulgating changes in the current regulations relating to the survey and certification of

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[23] U.S. Congress. Senate. Special Committee on Aging. Nursing Home Survey and Certification: Assuring Quality Care. Hearings, 97th Cong, 2d Sess., July 15, 1982. Washington, U.S. Govt. Print. Off., 1982

[24] Ibid., p. 4.

SNF's and ICF's and the medicare and medicaid conditions of participation until 1984.

Finally, in the final continuing resolution (Public Law 97-377), Senator Chiles successfully included a provision to restore medicare funds for the nursing home survey and certification program which were cut in the Omnibus Budget Reconciliation Act of 1981 to their original level, $32 million.

F. SUMMARY

The need for long-term care reform has received increased public attention throughout the past decade. Actions have been taken to strengthen quality assurances in nursing homes and to add programs, however small, that provide personal care services to help the elderly remain as independent as possible. Federal research and demonstration projects have been directed to coordinate fragmented services and to develop a continuum of care for those who need a broad spectrum of health and social services. States have begun to take advantage of the 1981 Federal legislation which gives them the opportunity to develop coordinated long-term care systems with a wide range of available services under medicaid waivers.

Although these actions represent some progress in long-term care, a consensus on specific guidelines for appropriate and comprehensive reform is still lacking. Costs for nursing home services in 1982 grew by over 11 percent. Indeed, based on some State actions, attempts to limit the growth of nursing home expenditures may begin to threaten the one protection that exists now for the elderly—that is, the provision of nursing home coverage by medicaid for those who are unable to pay.

The over-65 population of today is healthier than ever. As the number of older Americans increases, we can expect a subsequent demand for more nursing home and community-based care. Policymakers must, therefore, respond to the demand for appropriate, comprehensive, and affordable long-term care services.

Part V

SOCIAL SERVICES

Federal programs which support a broad range of services to older Americans today play an important role in the effort to meet needs and expand opportunities. These are the programs which provide funds to operate a wide variety of community and social services, including: Senior centers, home health programs, training, legal services, education, transportation, and volunteer opportunities for older persons.

In contrast to the entitlement programs—social security, SSI, food stamps, medicare, and medicaid—these programs are funded by discretionary appropriations from the general fund. In general, they consume a relatively small part of the Federal budget devoted to older Americans. During fiscal year 1982, most of these programs experienced modest reductions in funding levels. In addition, the administration continued to urge Congress to consolidate many of these programs into block grants and to phase out others altogether.

The major exception to this trend was the Older Americans Act—the principal service program exclusively serving persons over 60 years of age.

The 1981 amendments to the Older Americans Act reaffirmed strong and continuing congressional support for the programs funded under its auspices. The amendments provided for a 3-year reauthorization of the act, with only relatively minor modifications, which provided additional flexibility in targeting service dollars. The Older Americans Act has grown over the years from a few small social service grants and research projects to a highly complex system of community services which are administered by 57 State and territorial units on aging and hundreds of locally based area agencies on aging. In addition to providing for basic social and nutritional programs, the act has resulted in the development of other important services at the local level, including: Employment, counseling, home health care, transportation, adult day care, information and referral, and many more.

In fiscal year 1982, the appropriation level under the act was more that $913 million, with the largest share directed at supporting activities of State and area agencies on aging. New emphasis was placed on the discretionary activities under title IV, with the Administration on Aging's participation in the Office of Human Development Services' coordinated discretionary fund program. AoA continued its support of research projects related to long-term care, housing needs of the elderly, and the special needs of the minority older person.

Congress reaffirmed its support for the senior community service employment program by overriding a Presidential veto, and funding the title V program at its authorized level of $277 million. In addition, the Department of Labor released regulations for developing model projects designed to demonstrate methods of training and placing eligible persons in the private sector.

The social services block grant was established by the Omnibus Budget Reconciliation Act of 1981. Previously operated as title XX of the Social Security Act, the program authorizes payments to States for a wide range of community social services for individuals and families. The former title XX program was designed to prevent or reduce dependency, prevent neglect and abuse, and prevent or reduce inappropriate institutionalization. Although many States retained these central objectives, under the new block grant, they were free to design their own social services programs. The fiscal year 1982 continuing resolution funded this program at a level of $2.4 billion, which represented a 20-percent cut from the 1981 funding level.

The older American volunteer programs, administered by the ACTION agency, were originally authorized under title II of the Domestic Volunteer Service Act of 1973. The programs consist of the senior companion program, the retired senior volunteer program, and the foster grandparent program. All of these programs provide an opportunity for persons 60 years of age and over to volunteer their services to the community by working with the emotionally disturbed, the mentally retarded, the physically handicapped, the infirmed, and the isolated elderly. Reauthorized by the Omnibus Budget Reconciliation Act of 1981, the older Americans volunteer programs operated at a level of $84.6 million for fiscal year 1982. In addition to basic program support, ACTION initiated a number of demonstration programs designed to improve and expand voluntary activities at the local level, and promote intergenerational programing.

Prior to 1982, a variety of antipoverty programs were carried out by a national network of over 850 community action agencies which were federally administered by the Community Services Administration (CSA). The Omnibus Budget Reconciliation Act of 1981 abolished CSA, and replaced its activities and funding with a community services block grant. The act authorized annual funding of $389.4 million, with States receiving allotments based on the amounts they received from CSA in fiscal year 1981. Under the law, States are required to pass on most of their allotments to local governments and private nonprofit agencies to conduct antipoverty activities. Under the 1982 continuing resolution, Congress appropriated $348 million for this block grant.

Legal services are another important social service program that benefit older persons. The Legal Services Corporation was established to fund State and local agencies that provide civil legal assistance to the poor. Formed in 1974, it is a private, nonprofit corporation, whose community offices are the major source of legal assistance to the low-income elderly. During 1982, the administration proposed that the legal service programs be discontinued and that funding made available to States under the social and community services block grants be used for legal service activities. Congress rejected this proposal, and funded the Corporation at a level of $241 million during fiscal year 1982.

A number of provisions in the Urban Mass Transportation Act (UMTA) benefit older persons. Section 16(b) of the act allows 3.5

percent of urban discretionary grant funding to be set aside for capital assistance grants to States, local agencies, and private nonprofit groups for transit services to the elderly and handicapped. A total of $28.8 million was provided for the program in fiscal year 1982. Section 18 of UMTA provides formula transit grants for nonurban areas to expand access transportation to rural areas, many of which have a high proportion of elderly residents. During 1982, the program was continued at a level of $69 million. Finally, section 5 of UMTA provided money to all urbanized areas in the country on a formula basis, and contains the requirement that localities provide reduced fares in nonpeak hours to the elderly and handicapped. This program was funded at a level of $1.3 billion in fiscal year 1982.

Progress has been slow in the field of education and aging. While title I of the Higher Education Act (HEA) has set far-reaching goals in the area of continuing education, it has not been funded in this time of budgetary restraint. Under title I-B of the HEA, educational outreach programs were established to address the needs of underserved adults whose previous educational experiences had acted as a barrier to lifelong learning. During 1982, the program was funded at a level of $2.2 million, which represented a reduction of $12.8 million from the 1981 level. Although an authorization remains in place for educational outreach activities under the Omnibus Budget Reconciliation Act of 1981, the program was essentially phased out by the end of the 1982 fiscal year.

Chapter 15

OLDER AMERICANS ACT

OVERVIEW

The Older Americans Act sets out a series of policy goals aimed at improving the lives of older Americans in areas of income, health, housing, employment, retirement, and community services (title I), and provides the legislative basis for the creation of the Administration on Aging in the Department of Health and Human Services (title II). The act also establishes authority for the following: Development of programs to assist older persons, especially those in the greatest economic and social need, through grants to States and area agencies on aging (title III); development of research, demonstration, and training programs in the field of aging (title IV); the development of community service employment programs for low-income persons 55 years or older (title V); and grants to Indian tribal organizations for community planning and social, nutritional and center programs (title VI).

The total 1982 fiscal year appropriations level under the act was more than $913 million, with the largest share directed at title III, grants to State and area agencies on aging activities—almost $600 million. During fiscal year 1982, there were 682 planning and service areas (PSA) served by area agencies on aging (AAA), 6,674 multipurpose senior centers designated as community focal points, and over 13,200 congregate nutrition service sites. Over 9 million older persons were recipients of social and community services under approved area plans on aging, 52 percent of whom were considered in the greatest economic need for services, and 18 percent who were minorities. Nutrition services participants totaled over 2.8 million, 61 percent of whom were in the greatest economic need, and 18 percent minority. Over 140 million meals were served during the 1982 program year.[1]

A. HISTORY

The Older Americans Act of 1965 set out a declaration of objectives aimed at improving the lives of older Americans in the areas of income, health, housing, restorative services, employment, retirement, cultural and recreational opportunities, community services, and gerontological research. In the 16 years since it was first enacted, the act has succeeded in creating a comprehensive system for providing needed services in the community to help older persons remain self-sufficient and independent. During this time, the programs have grown from a few small social services grants and research projects to a network of 57 State units on aging, over 600 area agencies on aging and countless community organizations providing services to older adults.

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[1] Data for this section was taken from a report, fiscal year 1982—National Summary of Program Performance. U.S. Dept. of Health and Human Services, Administration on Aging, Office of Program Operations, Division of Operations Analysis. January 1983. Note: data on persons in the greatest economic need are derived from estimates provided by the States from reports received from area agencies on aging.

The Older Americans Act was first enacted in the 89th Congress (Public Law 89-73) and has been amended nine times. The original act established the Administration on Aging (AoA) as the Federal-level agency responsible for the administration of programs under the act, and authorized State and community social service programs, research, demonstration, and training projects. Provisions of the original legislation were extended by the amendments in 1967. The 1969 amendments strengthened the title III community services programs and charged State agencies on aging with statewide responsibilities for planning, coordination, and evaluation of programs for older persons. Areawide model projects that would test new approaches in meeting the social service needs of the elderly were also included in these amendments.

Major amendments to the act occurred in 1972 and 1973. The 1972 amendments created the national nutrition programs and authorized grants to public and nonprofit sponsors for the development of congregate meal services. In addition to meeting the nutritional and social service needs of persons 60 years of age and over, Congress envisioned that the program would serve as an important vehicle for fostering social interaction among participants.

With the enactment of the 1973 amendments, the Older Americans Act was significantly revised and expanded by the creation of area agencies on aging. These organizations were given major responsibility for planning, coordinating, and advocating for programs that would benefit older persons. Area agencies were designated by the State unit on aging to operate within a defined planning and service area, and were primarily charged with utilizing their limited service funds as catalysts for garnering other services dollars for older persons. The 1973 amendments created a National Information and Resource Clearinghouse for the Aging and a Federal Council on Aging, and authorized grants for multipurpose senior centers, and a community services employment program for older persons.

Amendments to the act in 1974, 1975, and 1977, primarily extended the authority for continued program operation, as well as made a number of minor adjustments to the act.

Amendments made in 1978 further strengthened and expanded title III of the act by consolidating the social services, multipurpose senior center, and nutrition services portion of the act. These parts were previously authorized under separate titles and under separate administrative authorities. These amendments also required that area agencies on aging expend at least 50 percent of their social service allotments on certain designated priority services, which included access, in-home, and legal services. In addition, a separate authorization for home-delivered meals under title III was made. Previous requirements that State and area agencies develop annual plans on aging services were altered to allow for 3-year planning cycles. These amendments also mandated that each State unit on aging establish a statewide nursing home ombudsman program, and added a new title VI to the act which authorized grants for social and nutritional services to Indian tribal organizations. The community service employment program (title V) was amended to raise the income eligibility requirements for participants from the Office of Management and Budget poverty level of 125 percent of the poverty level, and to increase the proportion of funding to States under the program.

The 1981 amendments to the act essentially provided for a simple 3-year extension for older Americans programs through 1984. Minor changes under the 1981 amendments provided greater flexibility to States and area agencies on aging. These changes included the following: Modified planning requirements to allow States to choose between 2-, 3-, or 4-year planning cycles; provisions to allow States the option to transfer up to 20 percent of the funds appropriated for any fiscal year between the social service and nutrition program; elimination of the requirement that 50 percent of the funds under the social services title (title III-B) be spent on certain designated priority services (access, in-home, and legal); and the inclusion of a fixed authorization ceiling for the Department of Agriculture's commodities program. In addition, the amendments provided for special emphasis in projects related to long-term care, housing, rural transportation, and mental health under title IV, and provided for funds to demonstrate methods of training and placement of older persons in private work settings under the title V program.

B. THE CURRENT FRAMEWORK [2]

The Older Americans Act as amended in 1981 contains six titles: I—Declaration of Objectives: Definitions; II—Administration on Aging; III—Grants for State and Community Programs on Aging; IV—Training, Research, and Discretionary Projects and Programs; V—Community Service Employment for Older Americans; and VI—Grants for Indian Tribes. Several of the major provisions of the act are described below.

TITLE I—DECLARATION OF OBJECTIVES

The Older Americans Act is directed toward giving older persons opportunities for participation in the benefits of this country. Ten broad objectives for older Americans are outlined in the act. The goals are as follows: (1) An adequate income, (2) physical and mental health, (3) suitable housing, (4) full restorative services for those who require institutional care, (5) employment without age discrimination, (6) retirement in health, honor, and dignity, (7) participation in civic, cultural, and recreational activities, (8) efficient community services, (9) benefits from research designed to sustain and improve health and happiness, and (10) freedom to plan and manage their lives.

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[2] Information concerning the current framework under the Older Americans Act comes, in part, from the U.S. Library of Congress. Congressional Research Service. The Older Americans Act of 1965: Major Provisions, As Amended, and Development of Selected Major Provisions, 1965-1981. Report No. 82-158 EPW, by Evelyn Tager and Carol O'Shaughnessy, Aug. 1, 1979 (updated Sept. 17, 1982). Washington, 1982.

TITLE II—THE ADMINISTRATION ON AGING

The Administration on Aging is established within the Office of the Secretary of Health and Human Services as the principal agency for carrying out the purposes of the Older Americans Act and administering most of the grant programs authorized under the act. The agency is directed by a U.S. Commissioner on Aging who is appointed by the President and confirmed by the Senate, and who is responsible directly to the Office of the Secretary. From an organizational perspective, the Administration on Aging is located within the Office of Human Development Services. Congress intended that the Administration on Aging was to have high visibility in the executive branch of Government, and serve as an effective advocate on all Federal activities and matters related to the field of aging.

The organizational placement of AoA within OHDS has been a matter of continued interest to the Congress. Since the 1973 amendments, the language regarding the placement of AoA and the authority of the Commissioner has essentially remained unchanged. A Senate report which accompanied the 1978 amendments stated:

> The committee believes that there is some benefit in having the Commissioner on Aging within OHDS for purposes of coordinating programs under the Administration on Aging with those programs administered by the Public Services Administration, the Developmental Disabilities Office, the Office of Child Development, the Office of Youth Development, and the Rehabilitation Services Administration. The committee believes that bringing these programs together fosters increased coordination and cooperation, and gives the Commissioner on Aging greater insight into overall policy development and program interface. Thus, while no new section with respect to AoA's placement in OHDS was taken in connection with this bill, it is a matter of continuing interest to the committee.

During debate on the 1981 amendments, the House receded from its initial position that would have required that the Commissioner on Aging be directly responsible to the Secretary of Health and Human Services rather than to the Office of the Secretary.

Title II of the act is primarily structural, in that it is the part of the act which discusses the establishment of the functional units necessary to implement the act. Under the 1981 amendments, the functional units which are continued include the Administration on Aging and the Federal Council on Aging. The National Information and Resource Clearinghouse for Aging, a component of AoA, was deleted.

TITLE III—GRANTS FOR STATE AND COMMUNITY PROGRAMS ON AGING

Title III authorizes grants to State agencies on aging for developing a comprehensive and coordinated delivery system of supportive social services and senior centers, congregate nutrition services, and home-delivery nutrition services. To qualify for funds, the

State agency must divide the State into separate geographic areas, known as planning and service areas (PSA's) and establish area agencies on aging for developing a comparable delivery system within the PSA's. As part of the mandated delivery system, area agencies on aging coordinate existing resources and foster the expansion and development of community services for the elderly.

The title III organizational structure is intended to form a "network on aging" linking the Administration on Aging, State and area agencies on aging, other public and private agencies, and local service providers. This network is intended to help older persons in need of supportive care remain independently in their homes. It is also intended to provide a continuum of services as well as social and economic opportunities for older persons.

Title III funds are distributed to the States according to a congressionally mandated formula based on the population of older people in each State. In turn, States allocate service funds to area agencies using an intrastate funding formula which must be approved by AoA. Through a structured planning process, State and area agencies are directed to provide greater leadership in identifying gaps and weaknesses in the delivery of services as well as fostering the expansion of services for the elderly.

Title III-B, supportive services and senior centers, funds are used in accordance with a State approved area plan. The act requires the development of a number of specified services if not otherwise available in the community. As a basis for mandated services, the 1978 amendments required that States spend at least 50 percent of their funds for social services on three categories—access service (transportation, outreach, and information and referral); in-home services (homemaker, home health aide, visiting services, telephone assurance, and chore maintenance); and legal services. It was required that some funds be expended in each category of service, but the percentage of funds targeted for a specific category was a matter of local determination. The 1981 amendments modified the requirement mandating a 50-percent targeting of funds and simply requires area agencies to expend "an adequate proportion" for such services.

In addition to the priority services, other allowable services under the act include: Ombudsman services; counseling and service management; health screening and other health-related services; recreational and educational-related activities; services to encourage the employment of older workers, including job counseling, job development and placement; crime prevention and victim assistance programs; and, a variety of voluntary service opportunities.

Under title III-C, grants are awarded through State and area agencies on aging to public and private sponsors for establishing and operating both congregate and home-delivered meal projects for persons age 60 and older and their spouses of any age. Additionally, the 1981 amendments allow congregate nutrition services to persons under 60 years if those individuals are handicapped or disabled and if they reside in a housing facility which is occupied primarily by the elderly at which congregate nutrition services are provided. Participants in these programs may pay for meals based on what they feel they can afford. Income derived from these donations can be used by project sponsors to increase the number of meals served.

The 1981 amendments continue to provide for separate authorizations for congregate and home-delivered meals. The financial support for congregate nutrition was $287 million for fiscal year 1982; for home-delivered nutrition the level was $57 million for the same fiscal year.

During the 1981 reauthorization, considerable debate was focused on the issue of total consolidation of the separate authorizations for programs under title III. It was argued that this consolidation would provide greater flexibility to States and area agencies on aging to select the appropriate mix of services for meeting the needs of their constituencies. Appropriations for parts B (supportive services) and part C (nutrition) have grown unevenly over the past few years, with most increases going to the part C. Although the conference agreement on this issue retained separate funding authorizations for parts B and C, the new amendments permit States to transfer up to 20 percent of their moneys between social services and nutrition allotments.

Nutrition services evolved from nutrition demonstration projects first funded under the Older Americans Act Amendments of 1968, to develop techniques for improving diets, fostering social interaction, and facilitating the delivery of social services for the elderly. The meals are intended to improve the health of program participants, and to attract isolated older persons to a place where services and opportunities are available.

Congregate nutrition services are available at least once each day, 5 days per week along, with outreach, transportation, counseling, recreation, nutrition education, information and referral, and other support services. In many cases, congregate "meals sites" have evolved into senior centers which act as community focal points for the needs of older persons.

Home-delivered nutrition programs are provided on a determination of need. Home-delivered meals are served at least once per day to individuals homebound by reason of illness, an incapacitating disability, or an extreme transportation problem.

Under the 1981 amendments, the U.S. Department of Agriculture receives continued authority to provide surplus commodities or cash-in-lieu of commodities to supplement the cost of providing meals under title III. The USDA reimbursement had been provided on a per meal basis in an amount adjusted for inflation to reflect changes in the Consumer Price Index for food away from home. Under the amended act, specific authorizations for the commodities program were capped at $93.2 million, $100 million and $105 million, for fiscal years 1982, 1983, and 1984, respectively. Further, provisions were included that in any fiscal year in which the per-meal reimbursement authorized exceeds the authorization for the commodities program for that fiscal year, the Secretary shall reduce the per-meal reimbursement, or provide for such sums as may be necessary to maintain the level of reimbursement for the number of meals served under this program in fiscal year 1981.

TITLE IV—TRAINING, RESEARCH, AND DISCRETIONARY PROJECTS AND PROGRAMS

Title IV of the Older Americans Act is authorized to support efforts in training, education, research, demonstrations, and evaluation which adds knowledge to improve program effectiveness and efficiency. The major activities undertaken in each of the title IV program areas are designed to develop and disseminate information to assist decisionmakers and service providers in addressing issues concerning older persons. The 1981 amendments to the act consolidated the Commissioner's authority to support a number of training, research, and demonstration activities, simplified certain funding requirements, and granted greater flexibility to the Commissioner in the award of discretionary funds.

Under the 1981 amendments title IV includes: Part A—education and training—which provides grants to train and recruit personnel for the field of aging and establish multidisciplinary centers of gerontology; and part B—research, demonstrations, and other activities—which provides grant funds to support projects on long-term care, legal services, national impact activities, utility and home heating cost demonstration projects, rural transportation, mental health, housing needs of the elderly, and special needs of minority individuals.

During fiscal year 1982, over $7 million was available to support education and training under title IV, part A. Projects supported by AoA under this section included: The national continuing education and training program, State education and training program, minority management training program in aging, technical assistance in financial management and accounting procedures for State and area agencies on aging, grants to historically black colleges and universities, and grants to support gerontology career preparation programs. In addition to these projects, part A also provided awards to continue support of six national policy centers on aging and a number of long-term care gerontology centers. The policy centers and areas of specialization include the following:

—Income maintenance, Brandeis University.
—Housing and living arrangements, University of Michigan.
—Employment and retirement, University of Southern California.
—Education and leisure, National Council on Aging.
—Older women, University of Maryland.
—Health care for the aging, University of California at San Francisco.

During fiscal year 1982, five long-term care gerontology centers were again funded. In addition, AoA awarded three planning awards in the two regions where centers have not yet been established.

During fiscal year 1982, the Office of Human Development Services (OHDS) established the coordinated discretionary funds program in order to better focus discretionary resources on priority issues requiring the involvement of more than one program office under OHDS. Examples of these issues include: Services to multiproblem developmentally disabled clients; intergenerational solutions to problems of children, youth, and the aged; and cost savings through joint problem-solving on common service delivery management concerns.

As a result of the coordinated approach, OHDS reported that client populations of concern to more than one OHDS program received increased attention and funding than would have been possible under separate, uncoordinated programs. A total of 167 grants were awarded by the close of fiscal year 1982 under the coordinated program. During fiscal year 1982, over $23.4 million was obligated to the coordinated program. Approximately $6 million was contributed by the Administration on Aging for this effort.

In addition to the coordinated discretionary program, AoA funded numerous projects under title IV, part B—research, demonstrations, and other activities. Under the section entitled research and development, AoA provided over $2.1 million during fiscal year 1982, which supported initiatives in the following areas:

—Projects in improving the quality and effectiveness of the delivery of health and social services to older persons.

—A project to train and supervise high school students to provide assistance to impaired older persons.

—A project to study older tenants in federally assisted housing sites.

—Projects for improving methods of disseminating research findings and encouraging their utilization.

—Projects aimed at promoting opportunities for older persons to secure and maintain independence and self-sufficiency.

—Projects to develop improved methods of providing priority social service programs for those older persons in need; and

—A project to encourage State and local development of service systems for older persons.

Section 422 of part B authorizes the award of grants or contracts to support model projects which demonstrate methods to improve the well-being and independence of older persons. AoA invested slightly over $9 million in fiscal year 1982 to support new demonstration projects, and to continue projects funded in prior years. Under the discretionary grant program, AoA continued to support 30 projects funded in previous years. These included: Awards to national organizations to improve the capacity to plan for and deliver services to underserved older persons, including minorities; grants to improve data collection, reporting, and computerization of information pertaining to aging programs; demonstrations designed to improve services in rural areas; grants to identify, treat, and prevent elderly abuse; and awards to enhance service delivery to minorities, migrants, refugees, and immigrants. In addition to these projects a variety of new projects were funded during fiscal year 1982. These included projects in the areas of mental health and aging, State and area agency on aging management development, housing services, volunteerism, and exploring new public policy options in the delivery of human service programs.

In the area of long-term care, AoA continued its efforts and support for the development of comprehensive coordinated systems of community long-term care. This included the funding of multidisciplinary centers and geriatric fellowship programs to improve staff resources development, intensify and spread technology development, and increase basis and applied research in long-term care.

Additionally, in cooperation with the Health Care Financing Administration, the AoA has continued to support the national channeling demonstration program, the long-term care data base, and 15 long-term care State systems development grants that are geared to promote community-based planning and service capacities to meet the needs of chronically ill and functionally impaired older persons.

Finally, section 206 of the Older Americans Act provides for the evaluation of the impact of all programs authorized by the act. AoA's evaluation program in fiscal year 1982 provided for three major initiatives. These included: A longitudinal evaluation of the nutrition program; an evaluation of State education and training programs; and an evaluation of title VI grants to tribal organizations.

TITLE V—SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM

The senior community service employment program (SCSEP) was established within the Department of Labor for creating part time public service employment positions for persons age 55 and older with incomes of not more than 125 percent of the poverty level. The program is geared to creating employment positions that contribute to the general welfare of the community, such as aides in hospitals, schools, libraries, social service agencies, etc. Program participants are paid at least the Federal minimum wage, the State or local minimum wage, or the prevailing wage in the community for similar occupations, whichever is highest. Additionally, project sponsors are required to provide training opportunities for participants when necessary to maximize their skills and talents.

The Department of Labor administers the title V community service employment program for older Americans. The program is modeled after the operation mainstream program which was first funded in 1965 under the Economic Opportunity Act. Operation mainstream authorized jobs for poor and chronically unemployed primarily in rural areas. The Department of Labor enters into contractual agreements with organizations that sponsor employment projects for older workers. Under the 1973 amendments, funds were apportioned to the States based on the States' elderly population. The 1975 amendments revised the formula to allocate funds more equitably to States with lower per capita income. The 1978 amendments fostered intrastate coordination between national contractors and State agencies on aging and increased the proportion of funding to State governments so that States could take a more active role in creating public service employment for older workers. Employment programs are located in universities, private nonprofit agencies, city and county governments, and Indian tribal organizations.

In fiscal year 1980, the average number of slots for persons in training numbered 52,000, and a 54,200 level is anticipated for fiscal years 1981 and 1982. In fiscal year 1981, 80,000 persons participated in the program, and 84,000 persons are expected to participate in fiscal year 1982.

The SCSEP program is managed by State agencies on aging and the following national contractors:

(1) Green Thumb, Inc., Washington, D.C., an agency of the National Farmers' Union.

(2) National Council on the Aging, Washington, D.C.

(3) National Council of Senior Citizens, Washington, D.C.

(4) National Retired Teachers Association/American Association of Retired Persons, Washington, D.C.

(5) U.S. Department of Agriculture, Forest Service, Washington, D.C.

(6) National Center of Black Aged, Washington, D.C.

(7) National Association for Spanish Speaking Elderly, Los Angeles, Calif.

(8) National Urban League, New York, N.Y.

Under the program, the Federal share of project costs may be up to 90 percent (100 percent in disaster or economically depressed areas). The Secretary of Labor must reserve from the annual appropriation funds sufficient to maintain the national contractor's fiscal year 1978 level of activity. The remainder is apportioned among the States based on a formula which takes into account the State's proportionate share of the Nation's population age 55 and older, and the State's per capita income with a minimum allotted to each State. These remaining funds that exceed the fiscal year 1978 dollar amount are apportioned so that State governments receive 55 percent and national contractors receive 45 percent of the dollar amount. Under the 1981 amendments, the 45 percent of excess funds which go to the national contractors within States must be distributed in an equitable manner among the various States.

Under the 1981 amendments a new change involves the emphasis on private sector employment of older workers. Public Law 97-115 requires the Secretary of Labor to conduct experimental projects designed to assure second-career training and placement of eligible individuals in employment opportunities with private business concerns. The Secretary is required to issue criteria designed to assure that these experimental projects will involve different kinds of work modes, such as flex-time, job sharing, and other arrangements relating to reduced physical exertion of the elderly. Additionally, the Secretary is required to emphasize projects which involve second career and job placement in growth industries and in jobs reflecting new technological skills. The new law requires that the Secretary submit a final report to the Congress on an evaluation conducted on this project no later than February 1, 1984.

Consistent with provisions of the Older Americans Act, the title V program is "forward funded." Thus, appropriations for this program are used during the annual period which begins July 1 of the calendar year immediately following the beginning of the Federal fiscal year, and ending on June 30 of the following calendar year. For example, appropriations made available for the program for fiscal year 1981, funded the program from July 1, 1981 through June 30, 1982.

During deliberations on the 1982 appropriations bills, a decision was made to remove the forward funding provision of the title V program and place it on a Federal fiscal year funding basis. The fiscal year 1982 continuing resolution provided $66.5 million for the program—an amount needed to fund title V activities through the last quarter of fiscal year 1982. The subsequent reauthorization of the Older Americans Act restored forward funding provisions to the program. Several supplemental appropriations bills during fiscal year 1982 provided additional funding for title V. In August 1982, the Congress overrode a Presidential veto of H.R. 6863, a supplemental appropriations bill, which contained $210.6 million for the senior community services employment program. This then brought the total amounts appropriated for fiscal year 1982 to $277.1 million, thereby assuring funding through June 1983.

For fiscal year 1983, the Reagan administration's budget contained a proposal to eliminate the title V program, and replace it with a new special targeted program, to train various disadvantaged groups, including older workers. Congress is considering alternative jobs training legislation. However, by overriding the veto, it essentially rejected the administration's proposal to eliminate the title V program.

TABLE 1.—SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM DISTRIBUTION OF FUNDS, PROGRAM YEAR 1982–83—JULY 1, 1982 TO JUNE 30, 1983

State	Green Thumb	NCOA	NCSC	NRTA	Forest Service	NCBA	ANNPM	Urban League	Total, national sponsors	State governments	Grand total
Alabama	$582,628	$353,796	$2,238,538	0	$268,595	$517,552	0	0	$3,961,109	$1,072,091	$5,033,200
Alaska	0	0	0	0	0	0	0	0	0	1,157,609	1,157,609
Arizona	124,614	1,606,273	0	0	503,627	0	0	0	2,234,514	607,789	2,842,303
Arkansas	2,981,592	0	0	$836,799	386,657	0	0	0	4,205,048	1,002,794	5,207,842
California	2,280,441	3,915,782	4,572,741	3,357,458	2,126,682	0	$906,235	0	17,159,339	4,550,528	21,709,867
Colorado	557,445	0	698,182	346,299	413,419	0	0	0	2,015,345	533,223	2,548,568
Connecticut	209,451	0	1,986,457	0	0	0	0	$356,637	2,552,545	677,024	3,229,569
Delaware	0	0	0	0	0	0	0	0	0	1,157,609	1,157,609
District of Columbia	723,797	0	511,683	30,385	0	0	0	0	1,265,865	321,000	1,586,865
Florida	3,140,000	396,964	1,598,392	4,725,038	528,357	473,631	723,838	0	11,586,220	3,097,265	14,683,485
Georgia	1,165,086	512,570	0	2,079,441	438,395	0	0	421,153	4,616,645	1,237,405	5,854,050
Guam	0	0	0	0	0	0	0	0	0	574,897	574,897
Hawaii	0	0	0	0	0	0	0	0	0	1,157,609	1,157,609
Idaho	218,343	0	0	256,374	527,000	0	0	0	1,007,717	272,524	1,280,241
Illinois	4,077,811	0	2,482,791	1,156,974	259,068	0	380,841	346,649	8,704,134	2,346,677	11,050,811
Indiana	3,385,454	0	1,666,205	376,540	101,659	0	0	310,084	5,839,942	1,475,472	7,315,414
Iowa	1,357,896	0	577,653	885,186	0	0	0	0	2,820,735	763,582	3,584,317
Kansas	1,829,145	0	0	0	0	0	394,547	0	2,223,692	596,460	2,820,152
Kentucky	1,804,175	857,941	0	714,426	354,037	464,448	0	0	4,195,027	1,080,703	5,275,730
Louisiana	1,138,583	477,728	589,861	633,470	374,575	0	310,538	0	3,524,755	950,020	4,474,775
Maine	175,276	978,896	0	189,040	44,421	0	0	0	1,387,633	361,872	1,749,505
Maryland	458,553	0	2,476,621	0	0	0	0	0	2,935,174	802,143	3,737,317
Massachusetts	915,255	0	3,630,306	404,447	0	0	0	384,140	5,334,148	1,439,940	6,774,088
Michigan	3,147,800	0	2,289,452	1,066,136	543,374	0	0	0	7,046,762	1,876,088	8,922,850
Minnesota	3,524,539	0	949,999	0	549,988	0	0	510,987	5,535,513	1,315,209	6,850,722
Mississippi	479,207	0	951,785	0	689,734	574,362	0	0	2,695,088	724,047	3,419,135
Missouri	3,311,268	283,561	396,500	1,016,925	527,715	0	0	0	5,535,969	1,446,515	6,982,484
Montana	911,482	0	0	279,416	200,500	0	0	0	1,391,398	343,903	1,735,301
Nebraska	1,297,241	0	0	396,238	24,797	0	0	0	1,718,276	449,535	2,167,811
Nevada	233,420	0	0	592,617	175,680	0	0	0	1,001,717	272,524	1,274,241
New Hampshire	360,407	0	0	403,518	185,862	0	0	0	949,787	263,346	1,213,133
New Jersey	3,599,988	1,406,182	1,326,897	0	0	0	0	402,229	6,735,296	1,753,252	8,488,548
New Mexico	0	0	0	442,726	590,204	0	0	0	1,032,930	280,644	1,313,574
New York	5,243,671	3,938,283	3,588,983	2,322,003	0	0	0	802,316	15,895,256	4,285,525	20,180,781

TABLE 1.—SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM DISTRIBUTION OF FUNDS, PROGRAM YEAR 1982–83—JULY 1, 1982 TO JUNE 30, 1983—Continued

State	Green Thumb	NCOA	NCSC	NRTA	Forest Service	NCBA	ANNPM	Urban League	Total, national sponsors	State governments	Grand total
North Carolina	883,741	453,106	1,643,882	0	1,630,960	754,179	0	0	5,365,868	1,451,338	6,817,206
North Dakota	1,148,691	0	0	175,646	6,441	0	0	0	1,330,778	332,547	1,663,325
Ohio	2,755,063	1,194,877	2,363,388	2,590,187	97,530	0	0	460,378	9,461,423	2,576,435	12,037,858
Oklahoma	2,500,423	0	0	410,173	101,159	0	356,164	0	3,367,919	876,341	4,244,260
Oregon	1,593,286	305,357	0	527,111	749,225	0	0	0	3,174,979	780,303	3,955,282
Pennsylvania	5,030,660	2,173,659	2,712,300	1,238,131	373,929	0	0	682,739	12,211,418	3,290,825	15,502,243
Puerto Rico	1,143,946	0	0	1,187,706	148,215	0	0	0	2,479,867	671,744	3,151,611
Rhode Island	0	0	396,567	756,748	0	0	0	0	1,153,315	300,466	1,453,781
South Carolina	940,091	256,986	653,243	518,069	326,491	0	0	0	2,694,880	730,230	3,425,110
South Dakota	1,319,257	0	0	195,803	57,395	0	0	0	1,572,455	376,774	1,949,229
Tennessee	1,432,893	496,025	1,279,102	0	490,500	651,174	0	0	4,349,694	1,192,822	5,542,516
Texas	4,863,293	1,716,764	1,354,593	2,426,274	177,098	0	367,220	0	10,905,242	2,899,520	13,804,762
Utah	760,543	0	0	0	602,485	0	0	0	1,363,028	338,858	1,701,886
Vermont	107,283	970,555	0	0	118,619	0	0	0	1,196,457	308,064	1,504,521
Virginia	2,357,611	596,103	0	957,592	392,968	0	0	310,084	4,614,358	1,207,911	5,822,269
Virgin Islands	0	0	0	0	0	0	0	0	0	574,897	574,897
Washington	618,317	0	635,959	1,043,106	655,407	0	0	0	2,952,789	800,113	3,752,902
West Virginia	232,101	1,208,980	721,980	0	341,816	0	0	0	2,504,877	648,591	3,153,468
Wisconsin	3,261,261	0	1,789,090	0	468,704	0	0	306,262	5,825,317	1,445,019	7,270,336
Wyoming	532,232	0	0	212,682	256,803	0	0	0	1,001,717	272,524	1,274,241
American Samoa	0	0	0	0	0	0	0	0	0	574,897	574,897
Pacific Islands	0	0	0	0	0	0	0	0	0	379,388	379,388
Northern Marianas	0	0	0	0	0	0	0	0	0	195,509	195,509
National total	80,715,260	24,100,388	46,083,150	34,750,684	16,810,091	2,435,346	3,439,383	5,293,658	214,627,960	62,472,040	277,100,000

TABLE 2.—SENIOR COMMUNITY SERVICES EMPLOYMENT PROGRAM DISTRIBUTION OF POSITIONS, PROGRAM YEAR 1982-83—JULY 1, 1982 TO JUNE 30, 1983

State	Total, national sponsor	State sponsor	Total, State
Alabama	786	200	986
Arizona	446	114	560
Arkansas	813	208	1,021
California	3,380	863	4,243
Colorado	396	101	497
Connecticut	500	127	627
District of Columbia	247	63	310
Florida	2,302	587	2,889
Georgia	915	234	1,149
Idaho	198	51	249
Illinois	1,725	440	2,165
Indiana	1,144	292	1,436
Iowa	558	143	701
Kansas	439	112	551
Kentucky	824	210	1,034
Louisiana	696	178	874
Maine	273	69	342
Maryland	581	148	729
Massachusetts	1,050	268	1,318
Michigan	1,393	356	1,749
Minnesota	1,066	272	1,338
Mississippi	534	137	671
Missouri	1,088	278	1,366
Montana	270	69	339
Nebraska	337	86	423
Nevada	198	51	249
New Hampshire	189	48	237
New Jersey	1,317	336	1,653
New Mexico	206	52	258
New York	3,125	798	3,923
North Carolina	1,066	272	1,338
North Dakota	259	66	325
Ohio	1,877	479	2,356
Oklahoma	661	169	830
Oregon	618	158	776
Pennsylvania	2,413	616	3,029
Puerto Rico	501	128	629
Rhode Island	226	58	284
South Carolina	537	137	674
South Dakota	303	78	381
Tennessee	866	221	1,087
Texas	2,149	549	2,698
Utah	265	68	333
Vermont	234	60	294
Virginia	906	231	1,137
Washington	586	150	736
West Virginia	492	126	618
Wisconsin	1,132	289	1,421
Wyoming	198	51	249
Alaska	0	226	226
Delaware	0	226	226
Hawaii	0	226	226
Samoa	0	114	114
Virgin Islands	0	114	114
Guam	0	114	114
Trust Territory	0	76	76
Northern Marianas	0	38	38
Total	42,285	11,931	54,216

TITLE VI—GRANTS TO INDIAN TRIBES

Under Public Law 97-115, title VI is reauthorized and continues the purpose of promoting the delivery of social and nutritional services for older Indians comparable to services provided for others under the act's title III State and community programs on aging. Grants are authorized to tribal organizations representing 75 or more Indians age 60 and older for paying all of the costs of services. To qualify for funds, tribal organizations are required to submit to the Commissioner on Aging for approval a plan which provides for:

—Evaluating the need for social and nutritional services among older Indians represented by the tribal organization.
—Social services, nutritional services, legal services, and nursing home ombudsman services consistent with requirements set forth under title III of the act.
—Information and referral services.
—Periodic evaluation of activities and projects carried out under such a plan.
—Employment of older Indians for full- or part-time staff positions wherever feasible.

Tribal organizations have the option of receiving services under the title III network of State and area agencies on aging or applying for funding directly to the Commissioner on Aging.

From a historical perspective, it was recognized that older Indians generally have not received services and benefits equivalent to those provided other persons under the title III program of grants for State and community programs. With the passage of the 1975 amendments, the Commissioner was authorized to allow Indian tribes to bypass the traditional title III State and area agency funding mechanism and apply directly to the Commissioner for funds necessary to establish a social services program.

This authority, however, was never exercised. Congress felt the title's shortcomings were related to the cumbersome determination process which required complicated grant applications and judgments by many levels of government before a decision could be rendered. Moreover, the authority provided in this title failed to recognize "tribal sovereign status." Representatives of Indian groups testified that tribal organizations, not the Commissioner, should determine the best funding source for establishing a social services program.

The 1978 amendments, therefore, revised the 1975 law to provide a separate title and funding authority for social and nutritional services for federally recognized tribal organizations.

The 1981 amendments relaxed a number of provisions contained in prior law, including elimination of the requirement that Indians be 60 years and over in order to participate under the program. This change was made to provide flexibility to tribal organizations and was based on statistics presented to the House Committee on Education and Labor indicating that the lifespan of Indians was considerably shorter than that of other Americans. The amendments also eliminated the prior law requirement that the State's allotment under title III be reduced by the amount attributable to Indians being served under title VI in the State.

Other provisions allowing for more flexibility in the administration of the program added by the 1981 amendments include: Making legal and ombudsman services to older Indians an allowable rather than a required service; allowing funds that would otherwise be expended for nutritional services under title VI to be used for social services when the need for nutritional services is being met from other sources; and removing a prior law provisions requiring that tribal organizations select only nonprofit private organizations to conduct project evaluations, giving authority to tribes to select an organization to carry out these activities.

C. OLDER AMERICANS ACT FUNDING

The 1981 amendments to the Older Americans Act (Public Law 97-115) provided for the following authorization levels from fiscal year 1982 through fiscal year 1984:

TABLE 3.—OLDER AMERICANS ACT AUTHORIZATIONS, FISCAL YEARS 1982, 1983, 1984 [1]

[In millions]

	1982	1983	1984
Title II: Federal Council on Aging	$0.200	$0.214	$0.229
Title III:			
Supportive services and senior centers	306,000	327,400	350,300
Congregate nutrition	319,000	341,400	365,300
Home-delivered nutrition	60,000	64,200	68,700
Title IV: Research, training, and demonstrations	23,200	24,800	26,600
Title V: Senior community services employment	277,100	296,500	317,300
USDA appropriation	93,200	100,000	105,000

[1] Authorization levels are set as ceilings to the various titles under the act. Actual funding levels may differ depending on actions by the appropriations committees.

During fiscal year 1982, the Older Americans Act programs were funded under the authority of continuing resolutions. The third continuing resolution (Public Law 97-116) funded programs through September 30, 1982. The amount provided by the resolution represented an approximate 4 percent decrease from the fiscal year 1981 funding level of $760.4 million.

TABLE 4.—*Fiscal year 1982, funding level*

	Millions
Title II:	
National Clearinghouse	$1.7
Federal Council on Aging	.2
Title III:	
State administration	21.7
Social services	240.9
Congregate meals	286.7
Home-delivered meals	57.4
Title IV: Training, research, and discretionary projects	22.2
Title V: Community services employment	277.1
Title VI: Grants to Indian Tribes	5.7

The Reagan fiscal year 1983 budget request included a total of $652.2 million for programs operated by the Administration on Aging. This represented a reduction of $77.5 million from the fiscal year 1982 funding level. The largest decreases in program support were proposed for title III programs. Title III-B, supportive services and senior centers, were reduced by $24.7 million—a net reduction of about 10 percent. Title III-C, congregate nutrition services, were lowered by $28.6 million which represents an approximate loss of 10 percent. Home-delivered nutrition services were reduced by $9.2 million or approximately 16 percent. Reductions were also proposed for State agency administration ($1.7 million) and training, research, and discretionary projects ($1.9 million).

The Older Americans Act also authorizes a food commodities program administered by the Department of Agriculture. This program supplements the nutrition programs authorized under title III. The U.S. Department of Agriculture (USDA) program provides reimbursement to States based on the number of meals served. States have the option of accepting the reimbursement in cash, commodity foods, or a combination of both. The fiscal year 1982 estimated level of support for this program was $93.2 million. The Reagan budget proposed to reduce this support by $9.2 million or approximately 10 percent in fiscal year 1983. Further, the budget request included a proposal to transfer the USDA program to AoA and "cash out" the commodities program. This request proposed discontinuing the separate USDA funding, and included a comparable amount in the AoA budget. Funds would be distributed to States based on the amount they received in 1982 rather than the current per meal entitlement formula.

In most cases, the proposals presented by the administration were rejected by the Congress. The 1983 continuing resolution (Public Law 97-377) funds Older Americans Act programs through September 30, 1983, at a level of $671.7 million. The resolution provides for some modest increases in funding, with the largest increase directed at title III-C (nutrition). The resolution provides for a $37 million increase in nutrition programs over the fiscal year 1982 level. This increase represents $32.3 million more for congregate nutrition and $4.7 million additional for home-delivered meals. The senior community services employment program (title V) was increased $4.8 million under the continuing resolution bringing its annual appropriation to $281.9 million.

TABLE 5.—OLDER AMERICANS ACT APPROPRIATIONS, FISCAL YEARS 1970–83

[In thousands of dollars]

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Title II: [1]														
National Information and Resource Clearinghouse	(2)	(2)	(2)	None	None	None	None	None	2,000	2,000	2,000	1,800	1,721	None
Federal Council on the Aging	(2)	(2)	(2)	None	None	0.575	0.0575	0.575	.450	.450	.450	.481	.191	0.175
Title III:														
Area planning [3] and social services	9,000	9,000	30,000	68,000	68,000	82,000	93,000	122,000	193,000	196,970	246,970	251,473	240,869	240,869
State agency activities [3]	4,000	4,000	5,000	12,000	12,000	15,000	17,035	17,000	19,000	22,500	22,500	22,675	21,673	21,673
Multipurpose senior centers	(2)	(2)	(2)	None	None	None	None	[4] 20,000	[4] 40,000	(5)	(5)	(5)	(5)	(5)
Nutrition program	(2)	(2)	(2)	100,000	104,800	125,000	[6] 125,000	[6] 203,525	250,000	277,046	320,000	350,000	344,099	381,099
Title IV:														
Training	2,610	1,000	8,000	8,000	10,000	8,000	10,000	14,200	17,000	17,000	17,000			
Research	3,250	2,800	9,000	9,000	7,000	7,000	8,000	8,500	8,500	8,500	8,500			
Model projects, special projects	None	None	9,700	16,000	16,000	8,000	13,800	12,000	15,000	15,000	25,000	[9] 40,500	[9] 22,175	[9] 22,175
Mortgage insurance and interest subsidies for senior centers	(2)	(2)	(2)	None	None	None	None	None	None	None	None			
Multidisciplinary centers of gerontology	(2)	(2)	(2)	None	None	None	1,000	3,800	3,800	3,800	3,800			
Title V: Community service employment for older Americans [7]	(2)	(2)	(2)	None	10,000	42,000	55,900	90,600	200,900	200,900	266,900	277,100	277,100	281,950
Title VI: Grants for Indian tribes	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	6,000	6,000	5,735	5,735
Foster grandparent program	9,250	10,000	25,000	25,000	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Retired senior volunteer program	None	.500	15,000	15,000	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Total	28,110	27,300	101,700	253,000	227,800	287,575	324,310	492,200	749,650	744,166	919,120	950,029	913,563	953,676

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[1] The title numbers are based on the 1981 amendments.

[2] Not authorized.

[3] Between 1965 and 1970, title III funds were allocated to States for social services. There was no appropriation for State or area planning activities. Beginning in 1970 funds were appropriated for statewide planning. In 1973 funds were appropriated for area planning and social services.

[4] The appropriation covered grants, mortgage insurance and annual interest subsidies, but funds were allocated for grants only.

[5] Multipurpose senior centers are funded under the title III area planning and social services appropriation.

[6] Congressionally mandated operating levels made possible through forward funding were $150,000,000 for fiscal year 1975 and $187,500,000 for fiscal year 1976. Program operating level for fiscal year 1977 was $225,000,000.

[7] Funding is available on an annual basis beginning July 1 and ending the following June 30.

[8] The foster grandparent program was funded under a general poverty program through the Economic Opportunity Act from 1967 through 1968. This program was given a statutory basis under the Older Americans Act of 1969. In addition, the retired senior volunteer program was created under the 1979 amendments. Legislative authority under the Older Americans Act was repealed in 1973 and both these programs were reauthorized under the Domestic Volunteer Service Act of 1973 (Public Law 93-113).

[9] Includes funding for training, research, discretionary, and multidisciplinary centers for gerontology.

Chapter 16

SOCIAL SERVICES BLOCK GRANT (TITLE XX)

OVERVIEW

In 1981, Congress created a block grant to States for social services under the Omnibus Budget Reconciliation Act (Public Law 97-35). The social services block grant (SSBG) succeeded a similar but somewhat more restrictive program of social services grants to States under title XX of the Social Security Act. Title XX had previously authorized payments to States for a wide range of community social services for individuals and families. The title XX program was designed to prevent or reduce dependency, prevent neglect or abuse of children and adults, prevent or reduce inappropriate institutionalization, and provide a limited range of services to individuals in institutions. Services under this program included, but were not limited to: Counseling, specialized transportation, protective services, day care, information and referral, meal services, and supportive health services.

The SSBG is currently administered by the Department of Health and Human Services. The legislation which created the block grant also included a 20-percent reduction from the previous year's funding level for the title XX program during fiscal year 1982. For fiscal year 1983, the Reagan administration proposed a further reduction of 18 percent for the social services block grant. The program is currently funded through September 30, 1983, under a continuing resolution which provides funds at the authorized level of $2.45 billion.

A. SSBG: HISTORY AND CURRENT FRAMEWORK[1]

Federally funded social services for welfare recipients have been authorized under various provisions of the Social Security Act since 1956. The program operated as an open-ended entitlement to States and spending grew rapidly in the late 1960's until a nationwide Federal expenditure ceiling was imposed in 1972. The different provisions in the Social Security Act authorizing services were consolidated into a new title XX, enacted in 1974, which authorized additional funds beyond the ceiling for training. The original ceiling of $2.5 billion was raised several times and, in fiscal year 1981, had reached a level of $2.9 billion, plus $16 million for the territories and $75 million for training. This ceiling was scheduled to rise further until it reached $3.3 billion in fiscal year 1985.

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[1] Unless otherwise noted, information concerning history, framework, and legislative activities comes from the U.S. Library of Congress. Congressional Research Service. Social and Community Services Block Grants: Fiscal year 1983 Budget Issues. Mini Brief No. MB82211, by Karen Spar, Feb. 16, 1982 (updated Oct. 19, 1982). Washington, 1982.

As it operated prior to enactment of the Reconciliation Act of 1981, title XX provided 75 percent Federal financing for most social services, except family planning which was 90 percent federally funded, and certain day care services which received 100 percent Federal funds. Training also was matched at a 75-percent Federal rate. The law required at least half of each State's Federal allotment to be used for services to recipients of aid to families with dependent children, supplemental security income, or medicaid. Remaining funds could be used to provide services to anyone whose income did not exceed 115 percent of the State's median income. Fees were mandatory for individuals with incomes between 80 and 115 percent of State median income. States also had to follow a specified planning and public participation process.

In line with the administration's desire to transfer maximum decisionmaking authority to State governments, Congress eliminated a number of restrictions in title XX when it amended the program in the 1981 Reconciliation Act. For example, under the current block grant, States no longer are required to provide a minimum level of services to welfare recipients, nor are Federal income eligibility limits imposed. States are free to design their own mix of services and establish their own eligibility criteria. Further, non-Federal matching requirements were eliminated. Federal standards for services, particularly for child day care, also were dropped. Child care funded by title XX now must meet only applicable State or local standards.

The Reconciliation Act established the following authorization levels for the social services block grant: $2.4 billion in fiscal year 1982, $2.45 billion in fiscal year 1983, $2.5 billion in fiscal year 1984, $2.6 billion in fiscal year 1985, $2.7 billion in fiscal year 1986 and beyond. The program is permanently authorized.

B. LEGISLATIVE ACTIVITIES IN 1982

In its fiscal year 1983 budget request, the Reagan administration proposed a total of $1.974 billion for SSBG. However, because the program is an entitlement to States with a nationwide ceiling on Federal expenditures, a change in the authorizing legislation would have been necessary to lower the ceiling from its authorized level of $2.45 billion in fiscal year 1983 to the administration's requested level of $1.974 billion. The White House had requested that language be included in an appropriations bill making this change.

The administration also proposed in fiscal year 1983 to terminate the work incentive (WIN) program which provides employment and training for recipients of aid to families with dependent children. Part of the administration's rationale for ending this program was that similar services can be provided under the SSBG. The administration proposed that language be added to the SSBG legislation specifying that States may continue WIN programs with their SSBG allotments.

In its reported version of a fiscal year 1983 funding bill for the Departments of Labor, HHS, and Education (H.R. 7205), the House Appropriations Committee went along with the administration's budget request of $1.974 billion for the SSBG. However, the committee stated that it was "not endorsing the legislative changes proposed by the administration to lower the Federal expenditure ceiling and to substitute the social services block grant for the work incentive program. Such changes must be made through the regular legislative process by amending the authorizing legislation." If the Congress rejected these proposals, the House committee said it expected the administration to request a supplemental appropriation to bring SSBG funding up to the fully authorized level for fiscal year 1983 of $2.45 billion. At the same time, in the fiscal year 1983 appropriations bill, the committee included $281 million for the work incentive program, the same amount provided in fiscal year 1982.

In its deliberation on H.R. 7205, the Senate Appropriations Committee included the full authorized amount of $2.45 billion for the social services block grant. This was in line with the first concurrent resolution on the budget which assumed fiscal year 1983 funding for the SSBG program at the authorized amount.

Because the House and Senate did not act on H.R. 7205, the SSBG and many other Federal programs are funded by a continuing resolution, Public Law 97-377. Under the agreement reached in conference, most of the Department of Health and Human Services programs are funded at their current operating levels. The agreement included a level of $2.45 billion for the SSBG, which will fund the program through September 30, 1983.

TABLE 1.—*Fiscal year 1982 Federal allotments to States for social services—Title XX block grants*

Alabama	$40,962,220
Alaska	4,212,053
American Samoa	347,494
Arizona	28,620,903
Arkansas	24,071,886
California	249,237,734
Colorado	30,421,556
Connecticut	32,727,656
Delaware	6,265,431
District of Columbia	6,718,226
Florida	102,563,502
Georgia	57,536,651
Guam	413,793
Hawaii	10,161,579
Idaho	9,940,446
Illinois	120,233,067
Indiana	57,810,434
Iowa	30,674,279
Kansas	24,882,706
Kentucky	38,550,819
Louisiana	44,268,682
Maine	11,546,400
Maryland	44,395,044
Massachusetts	60,411,377
Michigan	97,487,978
Minnesota	42,931,355
Mississippi	26,545,467
Missouri	51,776,567
Montana	8,287,215
Nebraska	16,532,310
Nevada	8,413,577
New Hampshire	9,698,253
New Jersey	77,543,905
New Mexico	13,689,174
New York	184,877,567

North Carolina	$61,854,005
North Dakota	6,578,177
Northern Mariana Islands	82,759
Ohio	113,693,853
Oklahoma	31,853,654
Oregon	27,725,842
Pennsylvania	124,961,097
Puerto Rico	12,413,793
Rhode Island	9,972,037
South Carolina	52,843,487
South Dakota	7,265,792
Tennessee	48,343,844
Texas	149,622,742
Trust Territory of the Pacific Islands	1,232,026
Utah	15,384,525
Vermont	5,380,898
Virgin Islands	413,793
Virginia	58,294,095
Washington	43,489,452
West Virginia	20,533,761
Wisconsin	49,544,279
Wyoming	4,959,693
Total	2,400,000,000

TABLE 2.—SOCIAL SERVICES BLOCK GRANT

[Outlays in billions]

	Fiscal year—			
	1982	1983	1984	1985
Baseline	[1] $2.91	$2.45	$2.50	$2.60
Administraton budget	2.91	1.97	1.97	1.97
First budget resolution	2.40	2.45	2.50	2.60

[1] Includes outlays to States from prior year obligation.

C. SSBG AND SERVICES TO THE ELDERLY

The role that the social services block grant plays in providing services to the elderly has been a major concern to the aging network and, more recently, to Congress. In recent years, many Members of Congress have expressed support for the block grant approach to social services programs because of the potential administrative savings and the simplification of Federal programs. Others, however, have opposed the approach because of the broad discretion allowed to States and the loosening of Federal restrictions and targeting provisions to assure a certain level of services for vulnerable populations, including the elderly.

Previously, title XX had been a major source of funding for community social services. Because programs funded under title XX were not age-specific, the extent of program participation on the part of the elderly was unknown. States had a great deal of flexibility in reporting under the program, and, as a result, it was difficult to identify the numbers of elderly served, as well as the type of services they received. The elimination of State reporting requirements under the social services block grant will make efforts to track services to the elderly more difficult.

Last year, the Office of Management and Budget estimated that during fiscal year 1981, approximately 21 percent of the total title

XX program dollars benefited the elderly. More recent information was obtained in a survey conducted by the House Select Committee on Aging, Subcommittee on Human Services on the extent of social services block grant funds targeted for elderly services. In a hearing held on March 31, 1982, Representative Mario Biaggi released the results of a 50-State survey of title XX administrators. Out of a total of 45 States responding, the majority spent between 10 and 20 percent of their social services block grant funds for services to older adults. The range of service dollars targeted for older adults went from 4.5 to 40 percent. The survey noted that four States did not keep age-specific data.

In another survey released in 1982, the National Data Base on Aging reported on the involvement in title XX services among State and area agencies on aging. Out of a total of 530 area agencies on aging responding to questions concerning funding, 36 percent indicated that they used some title XX moneys. Additionally, a review of the composite budgets of these agencies reveals that, on average, title XX funds comprise approximately 7 percent of their overall budgets.[2]

In addition to problems in determining funding amounts, little data exists on the national level indicating the extent to which title XX actually is coordinated with other programs, or the extent to which overlapping services are provided.

Some research has been conducted on coordination between title XX and the network of State and area agencies on aging authorized by the Older Americans Act. The Urban Institute reported in September 1978, that aging network involvement in social services decisionmaking increased after enactment of title XX, although State units on aging were far more active than area agencies. This involvement generally took the form of interagency agreements, participation in title XX advisory boards, exchange of plans and needs assessment materials, negotiating purchase-of-service contracts, and attending public hearings. The Urban Institute also noted, however, that States too often viewed interagency agreements as the end of the coordinative process, rather than the beginning. The mere existence of these agreements did not guarantee their implementation and often gave the illusion of coordination without the reality. Nonetheless, the Urban Institute found that where State and area agencies on aging played a role in the title XX process, services for the elderly tended to expand.[3]

A later study, released in February 1980 by Community Research Applications, Inc., reported that collaboration between title XX and the aging network is "not very high." This research found even less involvement on the part of the title XX agency in the development of State or area aging plans.[4]

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[2] National Data Base on Aging. A Profile of State and Area Agencies on Aging 1981. A publication of the National Association of State Units on Aging and the National Association of Area Agencies on Aging, August 1982. p. 14.

[3] State and Area Agency on Aging Intervention in Title XX. Working Paper No. 0990-24. Urban Institute. p. 9.

[4] Executive Summary and Recommendations. From a study of title XX services to the elderly in 12 States. Community Research Applications, Inc., New York, 1980.

Finally, the National Data Base on Aging has reviewed program activities supported with funds under title XX from State and area agencies on aging. In its profile of aging services, NDBA reported:

> * * * the majority of title XX activities occurs in three program areas: Community-based care, health-medical, and nutrition. The activities most frequently supported under title XX are advocacy, assessment, housekeeping, and chore. The advocacy activities funded under title XX are less likely to support legal services programs than Older Americans Act title III-B. Rather, advocacy is more likely to be an activity provided in a community-based care program. Case management is an example of a service where advocacy related to community-based care is often a key component.[5]

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[5] National Data Base on Aging. A Profile of State and Area Agencies on Aging 1981. p. 19.

Chapter 17

ACTION: VOLUNTEER PROGRAMS FOR OLDER AMERICANS

OVERVIEW

The older American volunteer programs (OAVP) administered by ACTION are authorized under title II of the Domestic Volunteer Service Act of 1973, as amended. Current authorizing legislation extends through September 30, 1983. These programs serve a dual purpose by uniting the time and energy of mature, experienced, and skilled people with unmet community and individual needs. Special emphasis is placed on serving the ill, the frail, or the physically disabled. In fiscal year 1982, the ACTION office has estimated that over 354,000 volunteers age 60 and over have served in 1,031 locally operated older American volunteer programs.

OAVP project grants are awarded by ACTION to private, nonprofit organizations and public agencies which recruit, place, and support volunteers. The actual volunteer services are provided through public and private nonprofit agencies, with the ACTION office providing necessary technical assistance to sponsors and training for the project staff. Funding is shared between the sponsoring agency and ACTION.

A. LEGISLATIVE HISTORY

ACTION was established in 1971 under a reorganization plan which brought together seven existing Federal volunteer programs into a single independent agency. Of the seven programs which became components of ACTION, six were previously administered by three different Federal agencies and the Peace Corps was an independent agency.

In addition to the Peace Corps, programs transferred to ACTION were the volunteers-in-service-to-America program (VISTA) and the national student-volunteer program, both previously administered by the Office of Economic Opportunity; and the foster grandparent and retired senior volunteer programs, both previously administered by the Administration on Aging in the Department of Health, Education, and Welfare. Also, in accordance with the comanagement agreement with the Small Business Administration, ACTION assumed primary, but not total, responsibility for administering the service corps of retired executives, and the active corps of executives. (These programs were returned to the Small Business Administration in 1975.) ACTION was given statutory authority under the Domestic Volunteer Service Act of 1973 (Public Law 93-113) which also repealed prior legislative authority for domestic-volunteer programs to reauthorize them under a single legislative authority. The Peace Corps remained authorized under the Peace Corps Act.

In addition, the Domestic Volunteer Service Act of 1973 provided authority for new programs intended to broaden the range of volunteer service opportunities: (1) The university year for action program; (2) the senior companion program; and (3) a program of grants for demonstration projects.

ACTION and domestic volunteer programs were extended in 1979 through fiscal year 1981 (Public Law 96-143). Older American volunteer programs were extended through fiscal year 1981 under the 1978 Older Americans Act Amendments (Public Law 95-478). The Omnibus Budget Reconciliation Act of 1981 reauthorized these programs for fiscal years 1982 and 1983.

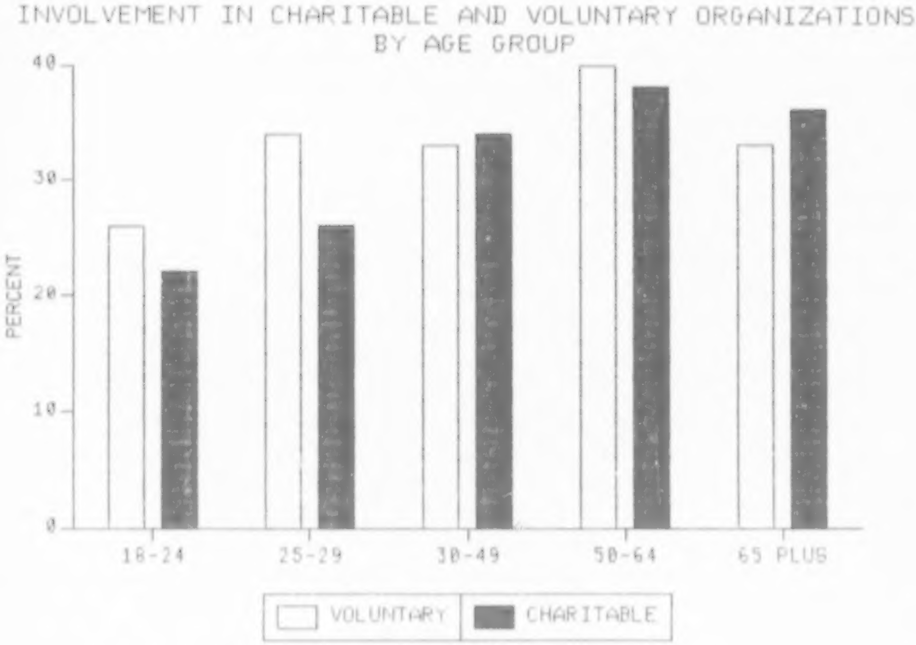
B. OLDER AMERICAN VOLUNTEER PROGRAMS

The older American volunteer programs include the retired senior volunteer program (RSVP), the foster grandparent program (FGP), and the senior companion program (SCP). RSVP, authorized under part A of title II of the Domestic Volunteer Service Act, provides a variety of volunteer opportunities for older persons in the areas of youth counseling, literacy enhancement, long-term care, and crime prevention. Other volunteers assist refugees, promote housing rehabilitation, and serve the disabled who are at risk of institutionalization. The FGP, authorized under part B of title II, provides volunteer opportunities for older persons working both inside and outside of institutions with children who have mental, physical, and emotional handicaps. They also serve children who are abused or neglected, who are in the juvenile justice system, who are in foster care settings, or who have other special needs. The SCP, originally authorized under section 221(b) of title II, part B of the Domestic Volunteer Service Act, provides older persons opportunities to volunteer their skills in assisting institutionalized and chronically homebound elderly. Companions perform a critical role in long-term care delivery by assisting those adults with mental, emotional, and physical impairments to function at their full potential, to stay healthy, and to manage their lives independently.

The Omnibus Budget Reconciliation Act of 1981 contains a 2-year authorization for the OAVP through fiscal year 1983. The legislation amends section 211 of the Domestic Volunteer Service Act to redesignate authorization for the senior companion program contained in part B as a separate part C.

In addition to participation in the older American volunteer programs, older persons are involved in a wide variety of both charitable and voluntary organizations. These include activities in areas such as social and health services, the arts, church-related groups, civic clubs, and fraternal organizations. Chart 1 provides a comparative review of involvement of such activities among different age groups.

CHART 1



SOURCE: RELIGION IN AMERICA, GALLUP REPORT, 1982

1. Retired Senior Volunteer Program (RSVP)

The retired senior volunteer program is designed to provide a variety of volunteer opportunities for persons 60 years and over in community settings. RSVP sponsors include State and local governments, universities and colleges, community organizations, and senior service organizations. Each project is locally planned, operated, and controlled. Volunteers receive reimbursement for transportation, meals, and other out-of-pocket expenses.

The program first received authorization in 1969 under title VI of the Older Americans Act of 1965, as amended, and was implemented in 1971 by the Administration on Aging. In July of that year, the program was transferred to the ACTION Agency under the President's Reorganization Plan No. 1. In 1973, Public Law 93-

113 repealed the program as part of the Older Americans Act and incorporated it into title II of the Domestic Volunteer Service Act.

The fiscal year 1982 appropriation of $26.4 million supported 332,000 volunteers in 722 projects. Under the continuing resolution for fiscal year 1983 (Public Law 97-377), RSVP is funded at $27.4 million.

2. Foster Grandparent Program (FGP)

The foster grandparent program is designed to provide part-time volunteer opportunities for low-income persons 60 years and over to assist them in providing supportive services to children with physical, mental, emotional, or social disabilities. Foster grandparents are placed with nonprofit sponsoring agencies such as schools, hospitals, day care centers, and institutions for the mentally or physically handicapped. Volunteers serve 20 hours a week and receive a stipend of $2 an hour plus meals, transportation assistance, an annual physical examination, and insurance benefits.

The program was originally developed in 1965 as a cooperative effort between the Office of Economic Opportunity and the Administration on Aging in the (then) Department of Health, Education, and Welfare. It was given a legislative basis in 1969 under title VI, part B, of the Older Americans Act of 1965, as amended. In July 1971, the program was transferred to the ACTION Agency under the terms of the President's Reorganization Plan No. 1. In 1973, Public Law 93-113 repealed the program as part of the Older Americans Act and incorporated it into title II of the Domestic Volunteer Service Act of 1973.

The fiscal year 1982 appropriation of $46.1 million supported 18,100 volunteers in 233 projects. Under the continuing resolution, FGP is funded at $48.4 million for fiscal year 1983.

3. Senior Companion Program (SCP)

The senior companion program is designed to provide part-time volunteer opportunities for low-income persons 60 years of age and over to assist them in providing supportive services to vulnerable, frail older persons. The volunteers assist homebound, chronically disabled older persons in order to assist them to maintain independent living arrangements in their own places of residence; they also provide services to institutionalized older persons. Volunteers serve 20 hours per week and receive a stipend of $2 an hour plus meals, transportation assistance, an annual physical examination, and insurance benefits.

The program was authorized in 1973 by Public Law 93-113 and incorporated under title II, section 211(b) of the Domestic Volunteer Service Act of 1973. The Reconciliation Act of 1981 created a separate part C for this program.

The fiscal year 1982 appropriation level of $12.2 million supported 4,800 volunteers in 76 projects. Under the continuing resolution, SCP is funded at $12 million for fiscal year 1983.

C. OAVP DEMONSTRATION PROGRAMS

The success of the OAVP programs has led to a variety of collaborative arrangements with other organizations in the social services area. These have included interagency agreements between the Department of Health and Human Services (DHHS) and ACTION, and between the Department of Justice and ACTION to support several demonstration volunteer programs.

In 1982, ACTION entered into interagency agreements with DHHS and the Department of Justice with respect to the foster grandparent program. Under the agreement, ACTION was provided funding by DHHS for 45 volunteer service years of effort to place foster grandparents in head start settings where they are assigned to children with special or exceptional needs. These funds are evenly distributed among three FGP projects in California, Georgia, and Wisconsin. In two agreements with the Office of Juvenile Justice, ACTION received funds to place 28 foster grandparents in juvenile justice settings, assigned to juvenile offenders in Georgia, and to place five foster grandparents in similar settings in the State of Washington. A third agreement will add 17 foster grandparents in Louisiana juvenile justice settings in fiscal year 1983.

In the retired senior volunteer program, an agreement between DHHS provided ACTION with an $82,000 grant to fund six RSVP projects to provide volunteer services of assistance to a number of head start programs. These grants enabled RSVP to recruit volunteers who would provide tutorial assistance in early childhood education, assistance in speech therapy, help in coordination of activities for handicapped children, and help in supervision of children's meals, games, and reading activities.

Finally, during 1982, special research demonstrations in long-term care became operational in five senior companion locations and two RSVP locations. These projects are intended to demonstrate the effect of the SCP and RSVP models of service delivery in helping older persons who have varying levels of functional impairments. Preinterviews of volunteers and clients have been completed, and postinterviews, which will attempt to measure the effect of the services on both the volunteers and clients, will be conducted at the end of 1983. Partial financial support for the evaluation aspect of this effort has come from DHHS through an interagency agreement with the office of the Assistant Secretary for Planning and Evaluation.

D. OAVP FUNDING

Public Law 97-161, the continuing resolution which maintained program funding for the remainder of fiscal year 1982, required that programs be funded at an amount which was the lower of the House-passed or the Senate-reported bills, minus a 4-percent reduction for most program accounts. Within a given account, program activities could have been reduced up to 6 percent, as long as the overall account was not reduced by more than 4 percent. The 1982 appropriation amount for the OAVP program was $84.6 million, which represented a reduction of approximately $4.3 million from the fiscal year 1981 level. The President's fiscal year 1983 budget requested $87.9 million for these programs. Final congressional action for OAVP programs under the 1983 continuing resolution (Public Law 97-377) funds these programs at a level of $87.9 million through September 30, 1983.

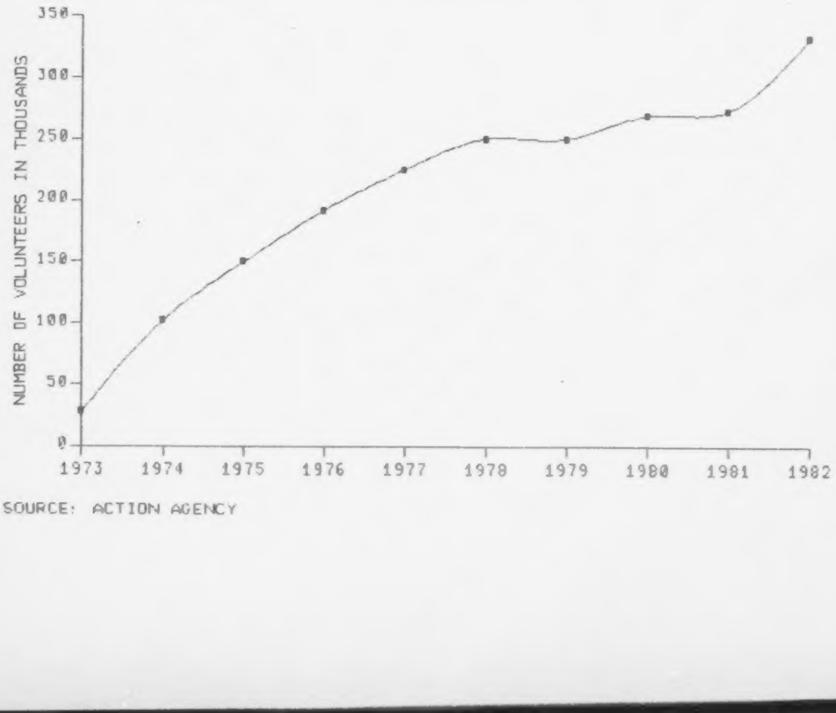
TABLE 1.—OLDER AMERICAN VOLUNTEER PROGRAMS (OAVP)

[In millions of dollars]

	Authorization levels, Public Law 97-35		Appropriation	
	1982	1983	1982	1983
Title II:				
RSVP	$28.691	$30.412	$26.388	$27.445
FGP	49.67	52.65	46.079	48.40
SCP	16.6	17.607	12.170	12.016
Total	94.961	100.669	84.637	87.861

CHART 2

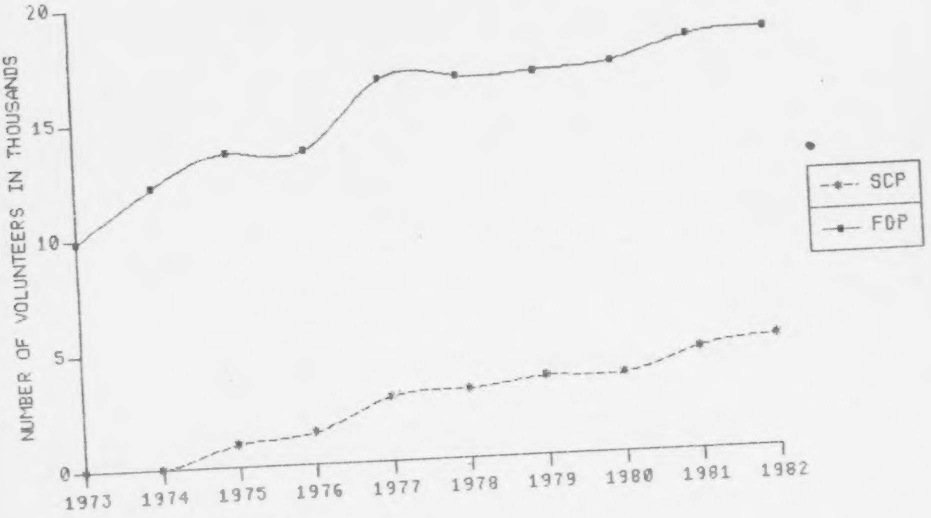
LEVELS OF PARTICIPATION IN THE RETIRED SENIOR VOLUNTEER PROGRAM 1973-1982



SOURCE: ACTION AGENCY

CHART 3

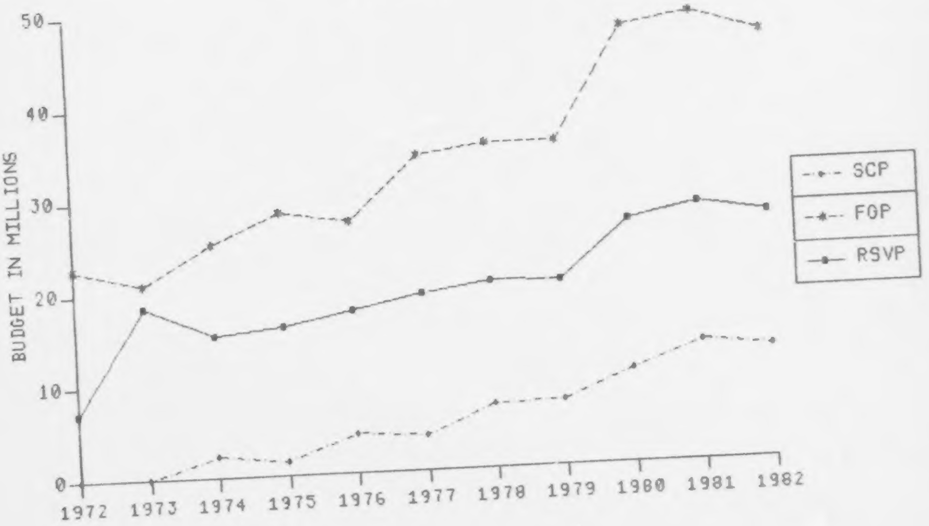
LEVELS OF PARTICIPATION IN FOSTER GRANDPARENTS AND SENIOR COMPANION PROGRAMS: 1973-1981



SOURCE: ACTION AGENCY

CHART 4

OLDER AMERICANS VOLUNTEERS PROGRAMS BUDGETS BY PROGRAMS 1972-1982



SOURCE: ACTION AGENCY

Chapter 18

COMMUNITY SERVICES BLOCK GRANT

OVERVIEW

Prior to 1982, a variety of antipoverty programs were carried out by a national network of over 850 community action agencies which were federally administered by the Community Services Administration (CSA).

Legislative authority for the Community Services Administration (CSA), expired at the end of fiscal year 1981. The Community Services Administration was the successor agency to the Office of Economic Opportunity (OEO). Originally authorized in 1964 by the Economic Opportunity Act, CSA was most recently reauthorized (Public Law 95-568) in 1978.

The primary goals of the Community Services Administration were twofold: (1) To provide the necessary assistance to the poor to become self-sufficient, and (2) to promote sensitivity and responsiveness to the needs of the poor.

The 1978 reauthorization of CSA emphasized specialized services to the elderly through programs such as: Senior opportunities and services, community food and nutrition, emergency energy conservation and crisis intervention, and local initiative programs through community action agencies.

The administration, in March 1981, proposed that CSA activities and a portion of its budget be folded into a social services block grant to States, beginning in fiscal year 1982. Under the administration proposal, CSA as a Federal agency would be abolished.

The Omnibus Budget Reconciliation Act of 1981 abolished CSA, and replaced its activities and funding with a community services block grant, to be administered by the Department of Health and Human Services (DHHS). The act authorized annual funding of $389.4 million, with States receiving allotments based on the amounts they received from CSA in fiscal year 1981. States are required to pass on most of their allotments to local governments and private nonprofit agencies to conduct antipoverty activities.

The administration's fiscal year 1983 budget included $100 million for the community services block grant, which was $248 million less than the amount provided by Congress under the 1982 continuing resolution.

The program is currently funded through September 30, 1983, under a continuing resolution (Public Law 97-377) at a level of $360.5 million. This amount includes $348 million for grants to States, $6.2 million to close out previous CSA activities, and $6.3 million for HHS administrative program support.

A. CSBG: HISTORY AND CURRENT FRAMEWORK [1]

The Community Services Administration, which in 1981 was abolished and replaced by community services block grants, was itself the successor in 1975 to the Office of Economic Opportunity (OEO), which had been the centerpiece of President Lyndon Johnson's war on poverty launched in 1964. During the 17-year history of OEO/CSA, numerous antipoverty programs were begun and spun off to other Federal agencies, including head start, legal services, low-income energy assistance, and weatherization. The OEO budget peaked in fiscal year 1969 and fiscal year 1970, with annual funding in those years of $1.9 billion. The funding then steadily declined until CSA's last year of existence in fiscal year 1981, when appropriations were $526.4 million.

In 1981, the Reagan administration proposed elimination of CSA and the transfer of its functions into a block grant as part of an overall effort to eliminate categorical programs and Federal overhead costs. Moreover, the community services block grant is one of a total of more than 40 current Federal programs which the administration proposes to turn back to States beginning in fiscal year 1984 under its "New Federalism" initiative.

From an historical perspective, CSA had been criticized by the General Accounting Office and congressional oversight committees as inefficient and poorly administered. During deliberations in 1981, however, many in Congress opposed the complete elimination of a specific antipoverty program, and, as a result, CSA activities were continued in a separate community services block grant (CSBG), rather than being folded into a larger block grant as proposed by the administration.

The 1981 Reconciliation Act authorized the CSBG through fiscal year 1986 at an annual level of $389.5 million. The program is administered by a newly created Office of Community Services (OCS) within the Department of Health and Human Services. Under the block grant, the Secretary may reserve up to 9 percent of appropriations each year for discretionary use. During fiscal year 1982, States could choose not to administer the block grant, in which case HHS would continue programs which had been funded by CSA in fiscal year 1981 in those States. Further, during fiscal year 1982, States were required to use at least 90 percent of their allotment for community action agencies and related programs funded in fiscal year 1981 by CSA.

Of the fiscal year 1982 appropriations, HHS allocated $314.5 million as block grants to States. In addition, $25 million was reserved for the Secretary's discretionary fund to be used for community development programs, rural housing, and migrant and seasonal farmworker programs. A request for applications for these funds appeared in the May 7 Federal Register, and grant awards were made in early October. Another $6 million was used to continue the national youth sports program for disadvantaged youngsters, which the former CSA had operated in conjunction with the National Collegiate Athletic Association. Finally, $2.5 million was used in fiscal year 1982 for Federal administration of the block grant. A separate appropriation of $18 million also was available to HHS for CSA closeout activities.

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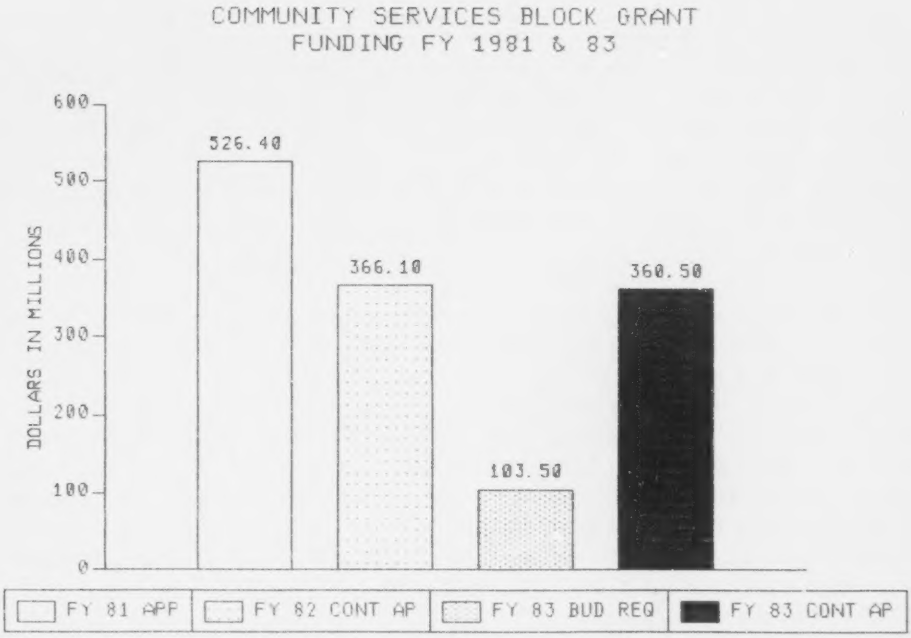
[1] Unless otherwise noted, information concerning history framework, and legislative activities comes from the U.S. Library of Congress. Congressional Research Service. Social and Community Services Block Grants: FY 83 Budget Issues. Mini Brief No. MB82211, by Karen Spar, Feb. 16, 1982 (updated Oct. 19, 1982). Washington, 1982.

B. LEGISLATIVE ACTIVITY IN 1982

The administration's fiscal year 1983 budget included $100 million for the CSBG, which was $248 million less than the amount provided by Congress under the fiscal year 1982 continuing resolution. This request represented a 79-percent cut in community services funding from the fiscal year 1981 level. Of this amount, the administration planned to allocate $91 million to States as block grants, and the remaining $12.5 million would be used for the expenses of the Office of Community Services, including $6.2 million to complete the closeout of previous CSA activities. The administration had no plans under the Secretary's discretionary account in its fiscal year 1983 budget.

In September, the House Appropriations Committee reported its fiscal year 1983 spending bill, H.R. 7205, which included $360.1 million for the CSBG. In the report that accompanied H.R. 7205, the committee stated its intent that 9 percent of the appropriation be used for the Secretary's discretionary account in the following way: $3.84 million for rural housing and community facilities; $2.88 million for assistance to migrants and seasonal farmworkers; $18.84 million for community economic development activities; and $5.76 million for national youth sports.

Because H.R. 7205 did not complete its way through the legislative process, the CSBG is funded under the authority of a continuing resolution through September 30, 1983 (Public Law 97-377), at an annual level of $360.5 million. This funding measure includes the 9-percent set-aside for the Secretary's discretionary account which had been included in H.R. 7205. In addition, a highly significant provision contained in the continuing resolution will continue the requirement that States must pass through 90 percent of their block grant allotment to existing community action agencies. This provision, however, is subject to a waiver by the Secretary if: (1) The State had, prior to October 1, 1982, submitted an application for fiscal year 1983 under the Community Services Block Grant Act, containing provisions for the use of assistance under the act by political subdivisions; and (2) the chief executive officer of the State certifies that, in at least 45 percent of the counties of the State, services assisted under the act were not available in fiscal year 1982.



C. SERVICES TO THE ELDERLY UNDER CSBG

The extent of services directed to the elderly under the community services block grant is difficult to assess. When the block grants were implemented, many of the requirements for data collection previously mandated and maintained under the Community Services Administration were eliminated. States were given broad flexibility in designing their own systems, plans, and the type of information they would collect under the grant.

Under the programs operated by the Community Services Administration a number of specific services benefited older persons. Through local community action agencies (CAA's), programs such as weatherization, employment opportunities, emergency energy assistance, senior center, and transportation programs were initiated and provided to older adults. State officials and local CAA administrators have indicated to the Aging Committee that a portion of the community services block grant funds are being used to maintain the general administrative operations of these local agencies. Thus, the funds permit the CAA's to mobilize other Federal resources, such as low-income energy assistance moneys and weatherization funds, in order to continue to provide programs directed at low-income individuals.

The National Community Action Foundation has estimated that elderly clients comprise one-third to one-half of all clients served by the community action agencies. In data provided to the committee, the foundation indicated that local CAA's are involved in operating senior centers, home-delivered meal programs, senior transportation, health centers, diagnostic screening and home health care, anticrime programs designed to lessen elderly victimization, and opportunities in volunteer programs.

In the past, a number of specific services targeted toward the elderly were operated under the Community Services Administration and provided locally by the CAA's. These included the senior opportunities and services program (SOS), the community food and nutrition program (CFNP), and the energy programs.

The SOS program was developed to maintain information and outreach services for linking the very poor with a variety of community social services designed to assist them. In most cases these programs complemented the existing services provided by the local senior center who were receiving funding under the Older Americans Act (OAA). In addition, the program gave preference to the employment of low-income elderly persons as service providers. Under the CSBG, there was no mention of reauthorizing the SOS program, however, in the legislation that reauthorized the Older Americans Act in 1981, the SOS program was included as an allowable service under title III–B of the act.

The purpose of the community food and nutrition program was to fight hunger and malnutrition among the poor. The CFNP services were available to low-income elderly, and attempted to improve and expand elderly food programs, improve access to food stamp assistance, provide nutrition consumer education, etc. Under the CSBG, the program is an allowable service, although cuts in funding under the block grant will make it difficult for CAA's to continue such programs.

Energy programs under CAA's provided emergency assistance and crisis intervention for low-income elderly to help defray their fuel bills. Since the enactment of the Home Energy Assistance Act of 1980, much of the previous CSA energy programs have been transferred to DHHS. In addition to this transfer, the low-income weatherization programs were moved from CSA to the Department of Energy (DOE). The current data indicates that DOE has continued to work with the CAA's in providing weatherization activities locally.

Under the current design, the community services block grant is operating through 1983 to provide services to assist low-income participants including the elderly poor. Funds under the CSBG are available to support activities designed to provide assistance in securing and retaining meaningful employment, attaining adequate education, making better use of available income, obtaining and maintaining adequate housing, providing emergency assistance in the area of health, nutrition, and housing services, and providing assistance in helping low-income individuals achieve greater self-sufficiency.

Chapter 19

LEGAL SERVICES

A. INTRODUCTION

The national population segment from which the need for elderly legal services arises is large and growing. Current methodologies for needs assessments do not accurately measure the demand for or the adequacy of available legal services. However, if one were to consider the potential clientele for legal services as those realistically unable to afford or obtain legal assistance, or, as those who need legal assistance to secure their rights and entitlements in areas such as Government benefits, long-term care, and housing, the majority of older persons would undoubtedly qualify for such legal assistance.

B. LEGAL SERVICES FOR OLDER PERSONS

Legal services for older persons are currently being provided under a number of existing programs. They include programs funded under the Legal Services Corporation Act, the Older Americans Act (title III–B), and the social services block grant established under the Omnibus Budget Reconciliation Act of 1981 (this block grant replaced programs originally operated under title XX of the Social Security Act). In addition, a number of private bar associations have initiated programs for the elderly on a pro bono and reduced fee basis.

Although programs funded under the Legal Services Corporation Act make services available to all low-income people, persons 60 years of age and older constitute a sizable proportion of the client eligible population, i.e., persons with incomes below 125 percent of the OMB poverty line. Thus, the Legal Services Corporation (LSC) programs are heavily involved in serving older persons. Individual programs must establish service priorities, taking into account the needs of client groups, such as the elderly which have difficulties in access to legal services. In 1982, persons 60 years and older made up 14 percent of the total caseload of all LSC programs.

LSC programs help older clients by engaging in legal representation or advice to individuals and groups, community education, outreach, training for other social services workers, and information and referral. Most of the cases for older persons involve Government benefits, particularly social security, supplemental security income, medicaid, and medicare. Other legal matters include housing, consumer, long-term care, pensions, guardianship, age discrimination in services and in employment, some wills, and simple estates.

At the national level, the LSC has funded a number of national support centers which are involved in issues that confront older people. These include the National Senior Citizens Law Center (NSCLC) in Los Angeles and Washington, D.C., Legal Counsel for the Elderly (LCE) in Washington, D.C., and Legal Services for the Elderly (LSE) in New York City. NSCLC is a national support center which provides assistance to local legal services program staff throughout the country on legal issues unique to the elderly. LCE provides legal representation to older persons in the District of Columbia using a combination of staff attorneys and a large contingent of volunteer attorneys and nonattorneys. LSE provides specialized litigation and State support for the elderly, particularly in the areas of employment and pension law. LSC and its national support projects publish numerous studies, training manuals, research papers, and handbooks on legal issues of concern to older persons. Recent materials cover social security, housing, long-term care, energy assistance, and access to legal services.

The improvement of legal services for the low-income elderly during the 1970's and early 1980's has been largely due to support from both the LSC and the now well-developed network of State and area agencies on aging. There has also been a related growth of expertise by legal service programs in issues of concern to the elderly.

Additionally, access to legal services was an important priority throughout the 1981 White House Conference on Aging, where 7 out of 14 committees adopted resolutions supporting legal services for older persons.

1. LEGAL SERVICES UNDER THE OLDER AMERICANS ACT

Support for legal services under the Older Americans Act (OAA) was a subject of interest to both the Congress and the Administration on Aging (AoA) for several years preceding the 1978 amendments to the OAA. There was no specific reference to legal services in the initial version of the OAA in 1965, but recommendations concerning legal services were among those made at the 1971 White House Conference on Aging. Regulations promulgated by AoA in 1973, for the first time identified legal services as eligible for funding under title III of OAA. The amendments to the OAA in 1978, established a funding mechanism and a programmatic structure for legal services. Today, a large number of local legal services programs have established specialized units or programs to serve older persons. In most instances these specialized delivery units have been financed with title III funds and to a smaller extent with title XX and local governmental funds. In 1982, 154 field programs (approximately one-half of all such programs) reported a total of $9,137,953 in OAA funds (see table 1). Area agencies on aging are required by the OAA to allocate some title III social services funds to legal services and to contract with an appropriate provider of legal services. LSC programs are identified by statute as suitable providers and have become the principal delivery mechanism for legal services under the OAA. Where a non-LSC legal provider is selected, that provider is required to coordinate services with the LSC funded program in the area. The LSC encourages its grantees to become OAA legal services providers and supports coordination between its programs and OAA legal services providers where a non-LSC provider is selected.

TABLE 1.—LIST OF STATE AND NATIONAL TOTALS SHOWING OAA FUNDS REPORTED BY LEGAL SERVICES FIELD PROGRAMS FOR 1982

[Dollars in thousands]

State	Number of programs with OAA funding	Amount
Alabama	2	$65,750
Alaska	1	41,866
Arizona	3	40,182
California	13	1,403,171
Colorado	3	115,000
Connecticut	3	267,985
Florida	8	620,375
Georgia	2	455,062
Hawaii	1	118,000
Idaho	1	79,700
Illinois	4	473,512
Indiana	3	267,323
Iowa	1	17,175
Kansas	1	158,856
Kentucky	4	53,498
Louisiana	1	5,914
Maryland	1	193,639
Massachusetts	10	931,756
Michigan	8	256,224
Minnesota	4	422,749
Missouri	5	160,652
Nebraska	2	65,413
New Hampshire	1	99,691
New Jersey	7	166,491
New Mexico	3	77,300
New York	10	433,066
North Carolina	2	110,518
North Dakota	1	138,050
Ohio	6	120,429
Oklahoma	2	212,637
Oregon	4	96,635
Pennsylvania	6	116,534
Rhode Island	1	39,483
South Dakota	1	9,020
Tennessee	6	247,599
Texas	5	119,836
Utah	1	59,619
Vermont	1	150,000
Virginia	7	137,760
Washington	2	360,230
West Virginia	1	12,000
Wisconsin	4	117,601
Virgin Islands	1	27,718
Guam	1	71,943
Total	154	9,137,953

Source: Legal Services Corporation.

2. LEGAL SERVICES SUPPORT AND DEMONSTRATION PROJECTS

The Administration on Aging has allocated the bulk of OAA title IV funds earmarked for legal services to grants to State agencies on aging for "legal services developers." These State legal services development grants have served to support and coordinate publicly and privately provided legal activities for older persons in that State. In 1982, legal services developers in six States were awarded to LSC programs. In a number of other States, the LSC programs responsible for statewide coordination have increased their efforts to consult with State agencies on aging and legal services developers.

In the area of title IV national legal services demonstrations, two of the national support centers, the NSCLC and LCE, participated in national demonstration efforts in 1982.

3. PRIVATE BAR INITIATIVE

In September 1982, all LSC field programs began to allocate a substantial portion of their LSC funds (at least 10 percent), to activities which involve the private bar in the delivery of legal services. A number of substantive areas of legal practice for the elderly lend themselves to shared responsibilities between the resources of the LSC, the OAA, and the private sector. These include wills, estate planning, and property management. LSC reports an overwhelming demand for assistance in social security and SSI determination which will increase the demand for training of private practitioners by legal services program staff in the area of public benefits.

4. LEGAL SERVICES AND THE AGING NETWORK CONFERENCE

In August 1982, the Legal Services Corporation Office of Field Services sponsored the first national conference for legal services programs—"Working Successfully With the Aging Network." Over 130 persons from throughout the country attended this training event. Participants consisted of LSC project directors and staff, State legal services developers, older Americans legal services providers (both LSC and non-LSC), and LSC State and national support program staff.

The conference resulted in a shared perception that renewed efforts were in order across a broad range of development in relationships between local legal services and aging services systems. For programs which have mastered the essentials of maintaining a core legal services and aging program, there is the potential for innovative projects expanding into relatively undeveloped legal areas such as medicare representation, employment rights of older persons, and long-term care. For other programs still struggling to establish a legal services-aging network connection, the conferees recommended developing alliances with bar associations, aging service providers, civic and community organizations, statewide elderly legal coalitions, and State legal services developers.

C. LEGAL SERVICES CORPORATION

1. HISTORY

Legislation creating the LSC was enacted in July 1974. Previously, legal services had been a program of the Office of Economic Opportunity, added to the Economic Opportunity Act of 1966. Public Law 93-355 established the legal services program as a private nonprofit corporation headed by an 11 member board of directors nominated by the President and confirmed by the Senate.

The Corporation does not provide legal services directly but instead funds local legal aid projects. At present, the Corporation has 326 local grantees that provide legal services through 1,187 neighborhood offices in all 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Micronesia. These local programs employ more than 4,500 attorneys and 1,800 paralegals. Each local legal service project is headed by a board of directors of which 60 percent are lawyers who have been admitted to the State bar. The Corporation also funds a number of national support centers, which develop and provide specialized expertise in various aspects of poverty law to legal services attorneys in the field.

Legal services provided through Corporation funding are available only in civil matters and to individuals with incomes no higher than 125 percent of the OMB poverty guidelines. Several restrictions on the types of cases legal services attorneys may handle were included in the original law and several others have been added since then.

During fiscal year 1976, which was its first full year of operation, the Corporation was funded at $92.3 million. In fiscal year 1980, the goal of minimum access was finally achieved with an appropriation of $300 million.

2. FISCAL YEAR 1982 FUNDING

As previously mentioned, legislation authorizing the LSC expired at the end of fiscal year 1980, and the agency has operated ever since under a series of continuing appropriations resolutions.

In the fiscal year 1982 budget proposal submitted to Congress, President Reagan announced plans not to seek reauthorization of the LSC and requested no funding for the program in fiscal year 1982. The President also proposed consolidation of 12 social services programs into a block grant to States. This approach was seen as consistent with the administration's goal of consolidating categorical grant programs and transferring decisionmaking authority to the States.

Despite the continuing uncertainty over the LSC authorization legislation, the House Appropriations Committee on July 16, 1981, reported a fiscal year 1982 spending bill (H.R. 4169) which included $241 million for the LSC, the same amount approved by the House authorization bill, H.R. 3480. The full House approved H.R. 4169 on September 9, 1981, after defeating an attempt to delete funding altogether for the LSC.

The Senate Appropriations Committee did not act on H.R. 4169 until October 30, 1981. In the meantime, Congress approved a continuing resolution on September 30, to continue funding for most

Government programs until November 20, 1981. This measure, (Public Law 97-51), set fiscal year 1982 funding for the LSC at $241 million. When Public Law 97-51 expired on November 20, 1981, Congress drafted a second continuing resolution which would have been effective until March 30, 1982. However, this measure did not contain certain budget reductions requested by the administration and was vetoed by President Reagan on November 23. Congress passed, and the President signed, another resolution (Public Law 97-85), which simply extended the provisions of Public Law 97-51 through December 15, 1982. A further continuing resolution (Public Law 97-92) was signed by President Reagan on December 14, effective through March 31, 1982, containing $241 million for the LSC. The resolution was extended again, through September 30, 1982 (Public Law 97-161).

3. Fiscal Year 1983 Funding

In his fiscal year 1983 budget proposal to Congress submitted February 8, 1982, President Reagan again requested no funds for the LSC and suggested its activities could be continued either by the private bar or through the social services block grant. However, Congress again rejected this proposal and eventually included the LSC in continuing resolutions for fiscal year 1983.

The regular appropriations bill for the LSC in fiscal year 1982, H.R. 4169, was reported by the Senate Appropriations Committee on October 30, containing $241 million and certain restrictions on the activities of the LSC. H.R. 4169 came before the full Senate on November 13. However, the full Senate never voted on its final passage and the Corporation remained both funded and authorized by the continuing resolution.

In its first concurrent guide by the Appropriations Committees, Congress assumed $100 million would be available for the LSC in fiscal year 1983, $50 million in fiscal year 1984, and complete phaseout in fiscal year 1985. Although the grand totals in this budget resolution were retained and made binding in the second concurrent resolution, the amount assumed for individual programs is left to the discretion of the Appropriations Committees. On August 10, the House Appropriations Committee approved H.R. 6957, containing $241 million for the LSC in fiscal year 1983.

Although H.R. 6957 passed the House, no action on this bill was taken in the Senate, instead Congress approved and the President signed a temporary continuing appropriations resolution, to be in effect through December 17, 1982 (Public Law 97-296). The measure contained current operating levels, or $241 million, for the LSC. Additionally, the legislation contained restrictions on LSC activities. Under the continuing resolution, class action suits against Federal, State, or local governments are prohibited except in certain circumstances. Also, no funds provided by the continuing resolution can be used for a full adversarial hearing before an application for refunding is denied.

Public Law 97-377 was signed by President Reagan on December 21, 1982, and is effective through September 30, 1983. This resolution continues funding for the LSC at the annual level of $241 million. In addition, the continuing resolution contains new language inserted by Congress limiting fees paid to LSC board members, after press reports indicated the LSC board of directors had received larger-than-usual consulting fees, and the LSC president had received employee benefits considered overly generous.

TABLE 2.—*Legal Services Corporation appropriations*

Fiscal year:	*Millions*
1976	$92.3
1977	125.0
1978	205.0
1979	270.0
1980	300.0
1981	321.3
1982	241.0
1983 [1]	241.0

[1] Public Law 97-377 through Sept. 30, 1983.

Chapter 20

TRANSPORTATION FOR OLDER AMERICANS

OVERVIEW

Transportation is the vital connecting link between home and community. For the elderly and nonelderly alike, adequate transportation is necessary for the fulfillment of the most basic needs; maintaining relations with friends and family, commuting to work, grocery shopping, and engaging in social and recreational activities.

Housing, medical, financial, and social services are useful only to the extent that transportation can make them accessible to those in need. Transportation, then, serves both humane and economic needs. It can enrich an older person's life by expanding opportunities for social interaction and community involvement, and it can support the individual's capacity for independent living, reducing or eliminating the need for institutional care.

The automobile is the primary means of transportation in the United States for both younger and older age groups, accounting for more than 80 percent of all personal trips, including excursions by automobile, public transportation, walking, bicycling, and other modes. However, the automobile is less available as a means of personal transportation for those 65 and older, because the number of carowners declines dramatically in the upper age groups.

According to the Federal Highway Administration, there were over 15 million licensed drivers age 65 and over in 1981. However, according to a 1974 survey by the U.S. Bureau of the Census, approximately 4 out of 10 persons age 65 and older who were heads of households did not own an automobile, a figure twice that of any other age group.

Decline in automobile ownership in the older age groups is accompanied by a decline in frequency of excursions (approximately half that of younger persons) and an increase in the proportion of trips taken as passengers rather than drivers. The older woman is particularly disadvantaged in a society dominated by automobiles. Possession of automobiles and driver's licenses is substantially lower among women aged 65 and older than among older men.

For many elderly, especially in rural areas, the problem is availability of transportation—any transportation. Public transit systems generally do not exist in isolated rural areas. Even in urban areas, the elderly may live in residential locations poorly serviced by public transit. The problem of poor transit service is compounded by the fact that routes are fixed and traditionally designed to serve central business districts and work force destinations.

Design and travel barriers on the systems they use add to the elderly's difficulties in obtaining transportation that adequately serves their needs.

A. 1981 WHITE HOUSE CONFERENCE ON AGING

The 1981 White House Conference on Aging highlighted the transportation needs of older Americans. In the past decade, progress has been made through the Older Americans Act and the Urban Mass Transit Act in providing better transportation services for older people. Yet, the need for better coordination among systems, and improved rural transportation are still unmet goals.

In the context of the high priority given to transportation by older Americans and its "cross-cutting" role of integrating other program objectives and policies concerned with the elderly, the following were designated as major recommendations by the Mini-Conference on Transportation for the Aging:

—There needs to be more local flexibility and fewer restrictions in the use of funds at the local level so that funds can be more easily pooled and coordinated around existing transportation programs, especially within any Department of Health and Human Services.

—There should be a careful monitoring of the implementation of section 504 regulations authorized by the U.S. Department of Transportation to insure that there is no net loss of mobility as "mainline" vehicles are made accessible to the elderly.

—The development of rural transportation systems should be given a high priority by State units on transportation, and State rural transportation services should be based upon plans developed by local service areas.

—Transit and other transportation providers should coordinate their services with human service agencies in order to more effectively serve elderly with limited incomes.

—Citizen participation should be required at the policymaking level as well as at the advisory and implementation levels of transportation programs.

—Coordination of transportation planning at the Federal level should integrate conventional transit needs with the social needs of the elderly, and not separate social service transport from transit systems. This should be true in both urban and rural contexts.

Additionally, from the results of a delegate survey conducted by the Special Committee on Aging and the American Association of Retired Persons in January 1982, transportation and mobility needs again emerged as a key priority consideration. In Committee 9 "Conditions for Continuing Community Participation," the second and third priorities dealt with the transportation needs of older persons. They were: (1) Provide adequate, available, and accessible transportation throughout the Nation, and (2) provide for the coordination of all State programs of transportation for older citizens through a single designated agency.

B. LEGISLATION AND PROGRAMS

Most transportation programs authorized by the Federal Government are administered by the Department of Health and Human Services (HHS) and the Department of Transportation (DOT).

Provisions of transportation services for older Americans are supplied under the Department of Health and Human Services through the Older Americans Act and a number of other programs.

The social services block grant contributes money by formula to the States for use in serving low-income persons of all ages. Transportation for older people is one possible use for the money. Medicaid (title XIX) funds may be used to cover transportation of a patient to an allowable service.

The goal of the Department of Transportation programs through the Urban Mass Transit Act is to subsidize, and favorably influence the design of mass transit systems through discretionary funding of State and local projects.

Four historical events in the development of legislative policy influence the current provision of transportation services to older people:

(1) The passage of the Older Americans Act (Public Law 89–73) in 1965, with amendments, has had a large impact on transportation to older people. Title III of the act distributes funds by formula to States. Access to services (which includes transportation) has been designated as a priority service under title III. The amendments of 1981 (Public Law 97–115) require the expenditure of an adequate amount of title III–B (social services) funds to create "an effective system" in access services.

(2) The passage of section 16(A) of the Urban Mass Transportation Act of 1964 as amended (Public Law 91–453), mandated the implementation of the associated "special effort" and planning regulations. Section 16(A) of the Urban Mass Transit Act sets out the national policy of Congress that the elderly and handicapped have equal rights to mass transit services with other Americans:

> That special efforts shall be made in the planning and design of mass transportation facilities and services so that the availability to elderly and handicapped persons of mass transportation which they can effectively utilize will be assured.

(3) The third significant legislative and policy decision in the last 10 years has been the National Mass Transportation Assistance Act of 1974 (Public Law 93–503), which amended the Urban Mass Transit Act. Particularly, section 5 and more specifically, sections 5(m) and 16(b)(2) of the Urban Mass Transit Act provide money to all urbanized areas in the country by formula and permits the money to be used for capital operating purchases at the locality's discretion. Section 5(m) also contains the requirement that localities give reduced fares in nonpeak hours to the elderly and handicapped. Section 16(b)(2) of the Urban Mass Transit Act sets aside 2 percent of the section 3 urban discretionary funds for capital grants to private nonprofit groups serving the elderly and handicapped.

(4) The fourth piece of major legislation that impacts the elderly is section 18 of the Surface Transportation Assistance Act of 1978 (Public Law 95-599). Beginning with fiscal year 1979, funds became available at the Federal level to support public transportation program cost, both operating and capital, for nonurbanized areas. Areas with populations under 50,000 were eligible for section 18 funds.

1. SYSTEMS SERVING THE ELDERLY

In 1975, the Institute of Public Administration, in its report, "Transportation for Older Americans: The State of the Art," identified 920 transportation projects serving the elderly of which 314 could be identified by type of service.[1] Five basic service categories were identified as serving the elderly: Conventional public transit, typically fixed-route and schedule service; special systems, usually described as some form of dial-a-ride or demand-responsive system; coordinated systems encompassing both fixed-route and dial-a-ride attributes, frequently "route deviation" systems; taxi systems typically operating with some form of reduced or subsidized rate; and a range of volunteer-based programs, usually operated by the private nonprofit providers. The dial-a-ride or demand-responsive systems in coordination with the taxi systems and the modified fixed-route systems (all of which represent forms of paratransit), accounted for almost 70 percent of the service providers.[2]

2. SPECIALIZED SYSTEMS

Specialized transportation systems comprise the major provider currently serving the elderly, and most take the form of a demand-responsive or dial-a-ride system—typically providing door-to-door service and requiring an advance reservation (usually 24 hours). A recent Institute of Public Administration study suggests there has been a steady increase of these systems, particularly those funded under title III (and formerly title VII) of the Older Americans Act. Estimates indicate that in fiscal year 1975 there were about 2,000 transportation projects being supported either fully or partially under these two titles, and by 1979 the total appears to have increased to an estimated range of 2,800 to 3,200 projects.[3]

The Older Americans Act has played a major role in developing these specialized transportation services to serve older Americans. However, there have also been other important sources of funding; for example, section 16(b)(2) of the Urban Mass Transportation Act has been estimated to have assisted in the purchase of some 3,000 vehicles for the elderly and handicapped.[4] Since the program is designed to provide private nonprofit agencies with capital assistance for vehicles, it has played an important role as capital "seed" money for transportation of the elderly.[5]

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[1] Institute of Public Administration, Transportation for Older Americans. April 1975, p. 73.

[2] Ibid.

[3] Institute of Public Administration. Improving Transportation Services for Older Americans, sponsored by the Administration on Aging, September 1980, p. 25.

[4] Willis, Y. The Effects of AoA's Interagency Agreement Strategy, Transportation for the Elderly and Handicapped; Programs and Practices, December 1978, pp. 7-10.

[5] Wozney, M., and J. Burkhardt. An Analysis of Continuation of Services. Funded under title III of the Older Americans Act of 1965, Department of Health and Human Services, Administration on Aging, 1980.

C. CONGRESSIONAL ACTION IN 1982

1. DEPARTMENT OF TRANSPORTATION REGULATIONS CONCERNING ACCESS

In recent years, there has been much debate about the Department of Transportation (DOT) regulations implementing section 504 of the Rehabilitation Act of 1973. In 1979, the Department of Transportation promulgated regulations (49 CFR Part 27) to implement the act. The regulations mandated accessibility for all modes of transportation receiving public money within 30 years, with additional provisions for providing interim accessibility services during transition to complete accessibility. Specialized transportation systems serving elderly and handicapped could serve as an interim provider.

The Department of Transportation pulled back those regulations in 1981 after a court ruling by the U.S. Appellate Court of the District of Columbia. The court determined that the Department of Transportation, section 504 regulations placed onerous affirmative burdens on local programs, regulations which exceeded the Department of Transportation's authority.

On July 17, 1981, the Department of Transportation proposed new regulations for section 504. The proposed regulations, if adopted, basically will be a return to the "special efforts" regulations in effect prior to 1979. Wheelchair lifts on buses and elevators and rail stations will no longer be required as a prerequisite to Federal funding.

However, on January 13, 1982, the Department of Transportation published a Federal Register notice indicating that this interim final rule was being reconsidered.

In that notice, the Department stated that the disadvantages of the interim rule's approach "are that it leaves some transit operators unsure of what they should do and that it may permit some transit operators to make minimal transportation services available to handicapped persons." In addition, the Department noted that "without any substantive Federal criteria, the quality of transportation services offered to handicapped persons might be inconsistent or quite low in some areas."

2. CRANSTON AMENDMENT TO THE SURFACE TRANSPORTATION ACT

On January 27, 1982, Senator Cranston along with four members of the Senate Banking Committee (Senators Williams, Sarbanes, Dodd, and Riegle) requested the Comptroller General to conduct a survey of transit services under the interim regulation. The survey covered 84 transit systems in 33 States and the District of Columbia. The data was collected from the transit operators (in the context of a GAO survey).

The survey data showed that of the 83 systems surveyed that provided bus service, 30 now intended to have 50 percent or more of their buses lift-equipped.

The GAO report data on paratransit services showed that of the 84 systems surveyed, 66 offered paratransit service; and of those 66, 22 have waiting lists of people who want to use the service for daily commutes; 61 require 24 or more hours advance notice; 38 set service priorities by trip purpose; and 6 said that they do not deny requests for service.

Compared to the bus service that these 66 systems operated, the paratransit service hours of operation were shorter in 45 systems; paratransit services were operated fewer days of the week by 35 systems; and the geographic area covered by paratransit services were less extensive in 15 cases.

These statistics show sharp retreat from the provision of accessible bus service.

Accordingly, during debate on the Surface Transportation Act of 1982 (Public Law 97-987), Senator Cranston offered an amendment "designed to provide for fair and equitable treatment of handicapped and elderly persons in the context of our Nation's public mass transit systems." The amendment has four parts:

- —It requires the Secretary of Transportation to establish criteria under section 16 of UMTA section 504 of the Rehabilitation Act of 1972 for providing handicapped and elderly persons with comparable, usable transportation services. (The Secretary will have broad discretion in formulating these criteria.)
- —It requires the Secretary to establish some procedures for the Department to monitor and insure compliance with the criteria he would establish.
- —It provides for representative organizations of handicapped and elderly persons the opportunity to participate in the process of planning and carrying out the services to meet their needs.
- —Recognizing that the proposed gas tax would provide a new source of funding for transit capital improvements, this amendment would authorize—but not require—the Secretary to set aside 3.5 percent of that new funding for capital improvements specifically for the purpose of meeting the needs of elderly and handicapped persons.

At the end of the 97th Congress, the Department of Transportation was drafting a notice of proposed rulemaking to be consistent with Public Law 97-987. The draft rule will have to be approved by both the Justice Department and the Office of Management and Budget within 90 days after notice in the Federal Register.

3. LEGISLATION EASING INTERCITY BUS REGULATION PASSED

In late August, Congress agreed to legislation to relax Federal and State regulation of the intercity bus industry. The legislation (Public Law 97-780), was signed by the President on September 20, 1982. Deregulation of the airline, trucking, and intercity bus industries is expected to affect older persons in essentially the same manner as all other users of the industries' services. However, deregulation in the intercity bus industry potentially could affect older persons more seriously than deregulation in the airline or trucking industries. During hearings held in the House and Senate Subcommittees on Surface Transportation on bus deregulation, some groups predicted that deregulation would result in better service on heavily traveled routes but reduced service in rural areas. If this were to happen, older persons probably would be hurt more than younger persons because they would be less able to use an automobile as an alternative. Supporters of bus deregulation, however, state that the law contains adequate safeguards against loss of necessary service. Because the bus industry was deregulated in late 1982, not enough time has passed to measure the actual effects of deregulation.

4. DEPARTMENT OF TRANSPORTATION FUNDING

The Reagan budget requested $31.2 million for section 16(b) in fiscal year 1983, a reduction of $2.4 million from the fiscal year 1982 level, and a $10.2-million reduction from the fiscal year 1981 level. The administration did not request funds for section 18 of UMTA for fiscal year 1983. A total of $69 million in fiscal year 1982, and $73 million in fiscal year 1981, was provided for the program. For section 5 of UMTA, the administration's budget requested $1 billion for fiscal year 1983, compared with the $1.3 billion in fiscal year 1982, and $1.4 billion in fiscal year 1981 appropriated for this program.

For fiscal year 1983, the first concurrent resolution on the budget assumed funding for these three transportation programs at fiscal year 1982 levels. The 1983 continuing resolution provides that the rate of operation for transportation programs will be the lower of the House passed or Senate reported bill (H.R. 7019, Transportation Appropriations Bill, 1983). Under this provision, therefore, the following annualized amounts were made available through December 17, 1982. For section 16(b), $32.4 million; for section 18, $32 million; and for section 5, $1.2 billion.

1983 DEPARTMENT OF TRANSPORTATION APPROPRIATIONS

	Fiscal year 1982	Fiscal year 1983
Urban discretionary grants (section 3)	$1,680,000,000	$1,606,000,000
Section 16(b)(2) (3.5 percent of section 3)	33,600,000	56,000,000
Nonurban formula grants (section 18)	68,500,000	68,500,000
Urban formula grants (section 5)	1,036,000,000	1,200,000,000

Section 16(b) of the Urban Mass Transportation Act of 1964, as amended, allows 3.5 percent of urban discretionary grant funding to be set aside for capital assistance grants to States, local agencies, and private nonprofit groups for transit services to the elderly and handicapped.

The Department of Transportation Appropriations Bill (H.R. 7019), which became Public Law 97-960, appropriated $56 million for section 16(b)(2).

Section 18 of the Urban Mass Transportation Act of 1964, as amended, provides formula transit grants, both capital and operating, for nonurbanized areas. This section was added through passage of the Surface Transportation Assistance Act of 1978. Assistance, both operating and capital, is apportioned to States on a population formula basis for public transportation projects in areas with populations of less than 50,000. Funds remain available to the State to which they are apportioned for 4 years and then are redistributed on the basis of the population formula. Public Law 97-960 appropriated $68.5 million to section 18.

The formula grant program for urbanized areas was established by section 5 of the Urban Mass Transportation Act of 1964, as amended. Capital (acquisition, construction, and improvement of facilities and equipment for use in mass transportation service) or operating (payment of operating expenses to improve or continue such service) assistance may be provided to urbanized areas or parts thereof on the basis of a formula. The Federal Public Transportation Act of 1982 (Public Law 97-424) makes a number of important changes in the Federal mass transportation assistance program. Major features of the new program are continuation of the section 3 program with a 3.5-percent dedicated source of funding derived from 1 cent of the 5-cent increase in the Federal gasoline tax (Cranston amendment); termination of the section 5 program at the end of fiscal year 1983; establishment of a new section 9 block grant program (funding distributed by formula), to begin in fiscal year 1983, which will provide both capital and operating funding at the discretion of each urbanized area (within certain guidelines); and continuation of the section 18 program.

Chapter 21

EDUCATION

OVERVIEW

The education of adults and older citizens has not always been a high priority. With the "graying" of the American population and a trend toward programs geared to education for self-sufficiency, it seems the appropriate time to refocus our educational programs. While title I of the Higher Education Act has set farsighted goals in the area of continuing education, it has not been funded in this time of budget restraint. Through the 1981 amendments to the Older Americans Act, specific reference is made to "education and training" for older people as a goal of the act. However, no additional funds were added to the act for this purpose. Most of the education programs that affect older adults have received budget cuts, while other programs were folded into block grants.

A. INTRODUCTION

The character of formal education programs in the 1980's will be shaped to a large extent by the size and age of the population they serve. Between 1980 and 1990, the American population is expected to increase and the age composition will be significantly different from the previous decade. In 1980, the median age of the population was 27.9 years; by 1990, the median age is expected to be 32.8 years. The "graying" of the American population, the increasing proportion of families in which both spouses are employed, population mobility, reentry into the labor market at midlife, decline in the rate of economic growth, and pressures for support of other governmental services—these are among the social and economic forces that will change public attitudes toward education and the quantity and quality of education that will be provided from public funds.

Rather than being an activity engaged in exclusively by the young, education will likely become more accepted as a lifelong endeavor. The employment market of the 1980's will require, from virtually everyone, not only competency in the basic skills but also attention to job-related skills that enable employees to adapt to changing employment patterns and job opportunities. Society's interest in supporting these activities may increase as attention is given to problems of the underemployed and the unemployed.

The national interest in education in the United States is somewhat different from that for other governmental services and programs. In the United States, education is a State responsibility, a local function, and a Federal concern.

The role of the Federal Government in education has been to insure equal educational opportunity, to enhance the quality of education, and to address national priorities in training. The State and local governments have had primary responsibility in educating adults and older citizens, with some participation from the private sector. Educating adults and older citizens has not been ranked high as an educational priority in the past. As table 1 illustrates only a small number of older people participate in any form of education.

TABLE 1.—EDUCATIONAL PARTICIPATION OF POPULATION 17 YR OLD AND OVER

[By type of participation and age group, year ending May 1978]

Age group	Total	Participants in adult education	Full-time high school or college students	Full-time vocational students	Non-participants not full-time students	Other
	Number in thousands					
17 to 24 years	31,730	3,563	9,954	611	16,666	1,566
25 to 34 years	32,881	6,596	1,182	433	23,628	1,333
35 to 54 years	46,787	6,091	381	238	37,423	2,783
55 to 64 years	20,391	1,395	24	21	17,804	1,160
65 yr and over	22,707	551	11	19	21,252	871
Total	154,496	18,197	11,553	1,323	116,774	7,712
	Percentage distribution					
17 to 24 years	100	11.2	31.4	1.9	52.5	4.9
25 to 34 years	100	20.1	3.6	1.3	71.9	4.1
35 to 54 years	100	13.0	.8	.5	80.0	5.9
55 to 64 years	100	6.8	.1	.1	87.3	5.7
65 yr and over	100	2.4	([1])	.1	93.6	3.8
Total	100	11.8	7.5	0.9	75.6	5.0

[1] Less than 0.05

Note.—Details may not add to totals because of duplicate counts, i.e., a participant in adult education may also be a full-time high school or college student and/or a full-time vocational student.

Source: U.S. Dept. of Health, Education, and Welfare. National Center for Education Statistics. Participation in Adult Education, and unpublished tabulations.

The 1981 White House Conference on Aging report of the technical committee on creating an age-integrated society, "Implications for Educational Systems," noted that as our society ages at an accelerated rate, it must assess and redefine the teaching and learning roles of older people, assure a match between the needs of older citizens and the training of those who prepare to serve them, and redouble its efforts to create a better informed and more sensitive public.[1]

B. EDUCATION FOR OLDER ADULTS

Many educators and gerontologists see education as a multifaceted tool meeting the needs of a diverse population with a large range of circumstances and interests. Education is seen as a means for acquiring and improving skills for living one's later years fully, coping with personal and societal changes, being actively involved in community life, and utilizing available options.

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[1] White House Conference on Aging. Report of the technical committee on creating an age-integrated society. Implications for the Educational systems, p. 1.

Some of the White House Conference on Aging Technical Committee on Education findings revealed that:

—Population trends and other societal changes suggest that we should redefine "old age" and reassess the role of the aged in our Nation. As a part of this process, all social institutions sponsoring educational programs, formal and informal, must be redesigned and restructured to accommodate the needs of the elderly and to achieve an age integrated society.

—There has been an encouraging increase in the number of educational programs for older adults and the range of content offered, although as yet these programs fail to meet the needs of many of our elderly citizens. It is estimated that fewer than 2.5 percent of those 65 and over now enroll for organized instruction, and those who do participate are largely from the more advantaged segment of the older population.

—Funding policies at the Federal, State, and local levels fail to reflect the responsibility of society for insuring educational opportunities over the lifespan. Little attention has been given to age discrimination issues in educational programs, including those funded by various Federal agencies, or to the issue of entitlement to educational opportunities at no cost to the older adult.

—Rapid technological change is intensifying the need for lifelong learning, but the lack of educational opportunities for older workers makes it difficult for them to update their occupational skills and knowledge bases, or to pursue new careers.

1. CURRENT SITUATION

While there may be strong arguments for the importance of formal and informal education for older people, in reality, it has traditionally been a low priority. Public and private resources for the support of education have been directed primarily to the establishment and maintenance of programs for children and youth, including those of the traditional college ages. Much of the limited support available for adult education is job-oriented (CETA, and the vocational education programs) and does not serve a great many older persons.

2. OLDER AMERICANS ACT

The Older Americans Act Amendments of 1981 (Public Law 97-115) broadened the scope of activities under the act. The amendments included specific language concerning "education and training" within the act's declaration of objectives.

Education and training is defined as "a supportive service designed to assist older individuals to better cope with their economic, health, and personal needs through services, such as consumer education, continuing education, health education, preretirement education, financial planning, and other education and training services which will advance the objectives of the act."

The 1981 amendments to the Older Americans Act also maintained education and training as a possible area of research under title IV of the act. The Commissioner of the Administration on Aging has the discretion to grant funds for model demonstration projects in the area of education and training.

These projects are designed to encourage the development of gerontological instructional programs at colleges and universities for the training of personnel who work for or on behalf of older people. In September 1982, funds were awarded to graduate schools, professional schools, 2- and 4-year colleges. Eight of the 31 schools receiving awards were historically black institutions of higher education. The historically black institutions awarded grants were Atlanta University and Clark College in Georgia; the University of the District of Columbia; Grambling State University in Louisiana; Livingstone College in North Carolina; Hampton Institute; Norfolk State University, and Virginia Union University in Virginia.

While the amendments allow for special consideration of education and training, title IV sustained a cut from the $40.5 million appropriated in fiscal year 1981 to an appropriated level of $22.2 million for 1982. (For a comprehensive explanation of title IV, see Older Americans Act chapter.)

3. ELDERHOSTEL

Inspired by the youth hostels and folk schools of Europe, and made operationally practical by the lifelong learning movement in the United States, Elderhostel is based on the conviction that retirement and later life represents an opportunity to enjoy new experiences.

Elderhostels are short-term residential, campus-based educational programs offered to older people at modest cost. The curricular emphasis is on the liberal arts and sciences. Typically, Elderhostels are 1 week in length, beginning on a Sunday evening and ending the following Saturday morning. Hostelers can elect to take one, two, or three courses offered by regular members of the institution's faculty. The courses deliberately avoid age-specific focus on the problems of aging of the elderly. Each Elderhostel institution, within the constraints of the program format, is encouraged to create an educational experience which is distinctive, calling on the academic strengths of the institution and the unique extracurricular and social environment which characterizes the campus community. The group of 30 or 40 older persons attending the program live in the dormitories, eat in cafeterias, and attend concerts, debates, and lectures.

Course material does not presuppose any particular academic credential. Since Elderhostel does not grant credit, individuals often choose their courses based on a lifetime enthusiasm rather than experience in traditional study.

Founded in 1975, in New Hampshire, by social activist Marty Knowlton, Elderhostel has rapidly become a major national movement of considerable significance. Five pioneer institutions served 200 participants in the summer of 1975, and in the years following dramatically increasing numbers of older people have enrolled in Elderhostel programs—2,000 in 1976, 4,800 in 1977, 7,200 in 1978, 12,500 in 1979, 20,600 in 1980, and in 1981 almost 37,000. Elderhostel was incorporated in 1978 as a nonprofit organization with a board of directors. A central coordinating office is in Boston, Mass.

C. CONGRESSIONAL ACTION DURING 1982

The 96th Congress enacted legislation to increase educational opportunities for those adults who have been unable to fully benefit from existing programs. Under title I-B of the Higher Education Act of 1966, educational outreach programs were established and aimed at addressing the needs of underserved adults, including the elderly, whose previous educational experiences had acted as a barrier to lifelong learning.

The title I-B educational outreach program was funded at $15 million for fiscal year 1981. During fiscal year 1981, the Reagan administration requested a rescission of $12.8 million for the program. Congress agreed to this request, and the program subsequently retained $2.2 million of the $15 million for the maintenance of educational outreach offices at the State level.

The Omnibus Budget Reconciliation Act of 1981 placed a ceiling of $8 million on the level of funding for adult education for fiscal years 1982, 1983, and 1984. Both the continuing resolution for fiscal year 1982, and the Reagan budget for fiscal year 1983, provided no funding for this program. Although an authorization remains in place for educational outreach activities under the Omnibus Budget Reconciliation Act of 1981, the program was essentially phased out by the end of the 1982 fiscal year.

D. EDUCATION ABOUT AGING

Nearly 60 years ago, Walter Lippman applied the term "stereotype" to describe the "picture which people carry in their heads." Stereotypes are shorthand ways of thinking that attempt to make the world more simple than it actually is. Negative stereotypes toward the elderly result in the underutilization of older people as a resource.

The White House Conference on Aging Technical Committee on Education found that:

—Despite ample evidence of the contributions and potentials of older adults, devastating myths and stereotypes endure. As a result, inequities are perpetuated, the elderly are denied full participation in society, and younger persons dread old age. Efforts to combat misconceptions through education are under way in public and private institutions, but much remains to be done to articulate the process of normal aging, underscore the strengths of the elderly, and expose any indignities associated with growing old in America.

—Many elementary and secondary schools are actively exploring ways to help their pupils view aging as a normal life experience—often by bringing older people into the classroom. Several kinds of intergenerational programing have been introduced successfully, but as yet information about these innovative approaches is not being disseminated widely enough.

—In higher education similarly, there has been a limited development of curriculum materials on aging for teacher educan, and of special training programs for teachers, but efforts are scattered as yet.

—Religious denominations, national youth groups, and community service clubs are among those who have begun to provide their members with information about aging and the situation of older people.

—It is highly encouraging that the mass media—comprising a powerful educational force—are beginning to present the elderly not as stereotypes but as real people. The growing interest in aging poses risks, however, and those who are committed to the well-being of older Americans must not only encourage further efforts but must also be concerned about the validity of the information and attitudes conveyed. As yet there are no adequate channels for conveying knowledge about aging and the aged to all those who shape the attitudes of the public.

Current Situations

While there has been much research concerning the aging process, the dissemination of information and the subsequent assimilation of the facts has been slow.

The National Council on Aging released in November 18, 1981, the results of a national survey conducted by Lou Harris on the concerns and attitudes of—and about—older people. The results suggest that the reality of aging in America does not, in fact, corroborate many of the generalizations which have been used to describe the supposedly typical psychological, physical, social, and economic circumstances of the elderly. Mr. Harris stated in his press interview that:

> * * * in analyzing and reporting these results, it surely must be evident that this is not an inert, hopeless group of older people, simply waiting out their time to die. To the contrary, these elderly are vibrant, alive, and want most of all to make their contributions to society for a long time to come and they are growing in numbers *and* in vitality.

Part VI

CRIMES AND FRAUDS AGAINST THE ELDERLY

The fear of crime and the often devastating impact of economic fraud are matters of serious concern to elderly persons. Recent evidence suggests that, especially in major cities, assaults and purse-snatchings directed against older Americans are increasing, and the fear of criminal attack is likewise escalating—to the point in many areas where the life opportunities and the lifestyles of the more physically vulnerable elderly are severely limited by this factor alone. Similarly, a major national survey of law enforcement officers and consumer protection specialists recently conducted by the committee has revealed that economic frauds—theft by trickery and deceit—are increasing at a dramatic rate; that these schemes occur in metropolitan as well as rural areas and pervade nearly every aspect of the elderly person's life; that the elderly are the most frequent targets of fraud; and that they are often less able to recover from the impact of fraud than are those who are younger.

Fear of crime and victimization by fraud are not necessary components of the aging process. As the following pages of this section indicate, the committee has focused its activities on understanding the exact nature of these problems and supporting the development of strategies effective in combating them.

Chapter 22

VIOLENT CRIME

A. FEAR OF CRIME

A 1981 Harris survey indicated that older persons are more concerned about the impact of crime on their lives than they are about their health, income, or most other social problems. As a result, many seniors change their behavior out of fear of being victimized. Others limit their travel to avoid specific areas and restrict shopping activities to "safe times."

When older persons do fall victim to crime, the impact on their lives is likely to be greater than on other population groups. They are more likely to be injured, slower to recover, and incur greater proportional losses to income.

Many of these problems were identified at hearings conducted by the Senate Special Committee on Aging on September 22, 1981. The focus of this hearing was on the impact of crime and fear of crime on the lives of senior citizens, and on constructive countermeasures that could be taken to prevent crime and to help crime victims.

One of those who testified at the September hearing was Harriet Cunningham. Mrs. Cunningham, a 77-year-old victim of a purse snatcher, personified seniors' concerns. In the process of stealing her purse, her assailant knocked Mrs. Cunningham to the ground, shattering her shoulder blade and upper arm. She awoke in a hospital to find her shoulder had been operated on and totally replaced with metal. Mrs. Cunningham testified:

> A friend took me home but had to leave me by myself. The pain was so bad that I had to finally call an ambulance to go back to the hospital at 5 a.m. for emergency care. That was the first indication I had of the pain that I was going to have to live with. Since then, I have had almost constant pain and I have never regained the use of my arm. I have had extensive therapy as an inpatient for 18 days. I had surgery on my hand. I figure that I was in the hospital for a total of 49 days. I then had therapy as an outpatient twice a week for 11 months. I am still afraid to go outside.

Further investigation by the committee determined that Mrs. Cunningham's case was typical not only of many other seniors but systemic to the criminal justice system. While the impact of crime on victims is often severe, their needs are too often neglected and forgotten in the judicial process.

B. OMNIBUS VICTIM'S PROTECTION ACT

In April of 1982, Senator Heinz and Senator Laxalt introduced legislation, S. 2420, to address this problem. As Senator Heinz stated when introducing the bill:

> Insensitivity to the victim is a tragic failing in our criminal justice system and one which hurts us all for without the cooperation of victims and witnesses, not one criminal could be brought to justice. Without the cooperation of victims and witnesses the criminal justice system would simply cease to function. Yet, with few exceptions victims and witnesses are either ignored by the criminal justice system or simply used as tools to identify and punish offenders. The victim of a violent crime often finds that he or she is treated as only a piece of evidence, not as a person, in the State's case against the offender.

As introduced, the bill would have:

—Required that a "victim impact statement" be made part of the report filed with the sentencing judge.

—Required a Federal judge to order restitution when passing sentence for crimes involving bodily injury or property loss, or else state for the record the reason for not ordering restitution.

—Required the Attorney General to develop guidelines for the fair treatment of crime victims and witnesses.

—Broadened the authority of the Attorney General so that he is able to relocate or protect any witness or potential witness.

—Waived sovereign immunity and created a cause of action against the Government for "gross negligence" in cases when someone is hurt as a result of early release of a prisoner or mental patient or failure to supervise an obviously dangerous person.

—Required the Attorney General to recommend legislation to restrict the ability of Federal felons to profit because of the notoriety of his crime.

—Established the intimidation of or retaliation against witnesses as a new Federal offense.

On May 27, 1982, the Senate Judiciary Committee's Subcommittee on Criminal Law convened hearings on S. 2420. Among the witnesses were representatives of the Department of Justice, victims groups, the American Bar Association, the American Civil Liberties Union, and victims who testified to failure of the criminal justice system in protecting their rights. One of the victims, Virginia Montgomery, told the subcommittee she had been awarded only $350 in restitution while medical bills related to her attack totaled over $11,000. Mrs. Montgomery's assailant plea bargained and was given 2 years of probation. Her case was closed before she was given a chance to let a court know what had happened to her as a result of the crime. When she did inquire as to the status of the case, Mrs. Montgomery said she was made to feel that it was "none of her business."

Another witness, Geraldine X, testified:

> My sense of outrage I feel because I was a victim is enormous. My life has been permanently changed. I will never

> forget being raped, kidnapped, and robbed at gunpoint. However, my sense of disillusionment with the judicial system is many times more painful. I could not, in good faith, urge anyone to participate in this hellish process.

Geraldine found in the year following her attack, she as a victim was forced to suffer through changed trial dates, disregard of a "victim impact statement" which she attempted to give the sentencing judge, and finally intimidation by the criminal himself.

At the hearing, the bill received the endorsement of the Department of Justice, American Bar Association, American Civil Liberties Union, National Organization for Victims Assistance, and other groups. On September 30, 1982, the bill was approved by both the House and the Senate, and on October 12, President Reagan signed it into law. As enacted, the Victim and Witness Protection Act of 1982 contains the following provisions:

1. Victim Impact Statement

Under existing Federal law, there was no requirement that information relating to the impact of the crime on the victim be included in the presentencing report. As a result, especially in cases involving plea bargaining, the judge most often passed sentence on the defendant without ever having seen or heard from the victim, much less having had access to information about the impact of the crime on the victim. The statement provided under the new law will contain only that information relevant to the sentencing process that is readily available and easily verified, and address the financial, social, psychological, and medical impact upon the victim.

2. Restitution

The Victim and Witness Protection Act authorizes the court to order restitution for any offense under title 18 of the U.S. Code other than those involving antitrust, securities, and certain other regulatory laws when the offense caused injury or death, or loss, damage, or destruction of property. The restitution should be made directly to the victim or to a person or organization designated by the victim. If the court does not order restitution, it must state its reasons for the record. The restitution ordered must be "as fair as possible to the victim without unduly complicating or prolonging the sentencing process." In addition, the law requires the amount paid pursuant to an order of restitution be offset against any subsequent recovery as compensatory damages in a civil proceeding.

3. Guidelines

To this date, no Federal executive policy has been set forth regarding treatment of victims and witnesses. The need for such guidelines was recently addressed by the Attorney General's Task Force on Violent Crime which recommended that the Attorney General should take a leadership role in insuring that the victims of crime are accorded proper status by the criminal justice system. S. 2420 requires the Attorney General to develop guidelines addressing nine specific objectives and to assign responsibilities for implementing them.

4. PROFIT BY A CRIMINAL FROM SALE OF HIS STORY—THE SON OF SAM PROVISION

The advent of the criminal-turned-author is a fairly recent phenomenon associated with the fascination of print and broadcast media with sensational, true-to-life story lines. Public awareness of the need for a statutory provision preventing such direct profit from crime followed the "Son of Sam" case in New York. The act requires the Attorney General to report to Congress within 1 year of the enactment of this legislation regarding the necessity of additional legislation to insure that no Federal felon derive profit from the sale of recollections and thoughts related to any offense committed by that felon until the victim receives restitution.

5. PROTECTION FROM INTIMIDATION AND RETALIATION

The Victim Services Agency in New York City reports that intimidation occurs in at least 10 percent of criminal cases. Parts of the U.S. Code provide some remedies for retaliation. These statutes, however, do not explicitly provide for unsuccessful attempts at retaliation, nor do they clearly prescribe retaliation against friends, relatives, or associates of an individual who has provided information concerning criminal investigations. S. 2420 makes it unlawful to intimidate, harass, or attempt to intimidate or harass a person to prevent, alter, or delay testimony in any official proceeding.

C. PRESIDENT'S TASK FORCE ON VICTIMS OF CRIME

In April 1982, President Reagan established the Task Force on Victims of Crime. In December, the Task Force released their recommendations and final report. Though the recommendations did not focus on the specific problems of the elderly, the implications of these recommendations on the elderly are significant.

One of the principal recommendations of the Task Force is a request for congressional action in enacting legislation to provide Federal funding to assist State crime victim compensation programs. The financial impact of crime can be severe. The impact on the poor and elderly is particularly severe since they often are without insurance or other means of regaining financial stability. While this problem is in part addressed by the restitution provisions of the omnibus victims' bill, restitution can only be ordered if the criminal is caught and successfully prosecuted. Even in successful cases, restitution is not a complete remedy because the criminal does not always have the resources to provide relief if restitution is ordered.

To address this need, 36 States and the District of Columbia have established crime victim compensation programs. These programs have proven valuable, but funding constraints have hampered their effectiveness. As a result, some States do not advertise their programs for fear of depleting available resources. In others, victims may have to wait months until the fund is replenished to receive their compensation. Of even greater concern is the fact that many programs are not able to provide emergency assistance—often the critical necessity for the poor and elderly.

The Task Force recommended that a crime victim's assistance fund be created and that it rely in part on Federal criminal fines, penalties, and forfeitures that currently are paid directly into the general fund. This recommendation reflects the concept that it is appropriate that criminals compensate their victims to the extent possible. This approach would also insure the program established would be administratively self-sufficient.

The second basic recommendation of the Task Force dealt with the establishment of victim/witness assistance units. The Task Force recommended that Congress enact legislation to provide Federal funding, reasonably matched by local revenues, to assist in the operation of Federal, State, local, and private victim/witness agencies. The expressed view of the Task Force is that although the Federal Government should not fully subsidize these agencies, their efforts should be encouraged by financial assistance.

Reprinted below is an executive summary of the Task Force's recommendations for Federal and State action. Copies of the final report may be obtained through the Government Printing Office (Stock No. 040-000-0461-1), Washington, D.C. 20401.

D. THE PRESIDENT'S TASK FORCE: RECOMMENDATIONS FOR FEDERAL AND STATE ACTION

(1) Legislation should be proposed and enacted to ensure that addresses of victims and witnesses are not made public or available to the defense, absent a clear need as determined by the court.

(2) Legislation should be proposed and enacted to ensure that designated victim counseling is legally privileged and not subject to defense discovery or subpena.

(3) Legislation should be proposed and enacted to ensure that hearsay is admissible and sufficient in preliminary hearings, so that victims need not testify in person.

(4) Legislation should be proposed and enacted to amend the bail laws to accomplish the following:

> (a) Allow courts to deny bail to persons found by clear and convincing evidence to present a danger to the community.
>
> (b) Give the prosecution the right to expedited appeal of adverse bail determinations, analogous to the right presently held by the defendant.
>
> (c) Codify existing case law defining the authority of the court to detain defendants as to whom no conditions of release are adequate to ensure appearance at trial.
>
> (d) Reverse, in the case of serious crimes, any standard that presumptively favors release of convicted persons awaiting sentence or appealing their convictions.
>
> (e) Require defendants to refrain from criminal activity as a mandatory condition of release; and
>
> (f) Provide penalties for failing to appear while released on bond or personal recognizance that are more closely proportionate to the penalties for the offense with which the defendant was originally charged.

(5) Legislation should be proposed and enacted to abolish the exclusionary rule as it applies to fourth amendment issues.

(6) Legislation should be proposed and enacted to open parole release hearings to the public.

(7) Legislation should be proposed and enacted to abolish parole and limit judicial discretion in sentencing.

(8) Legislation should be proposed and enacted to require that school officials report violent offenses against students or teachers, or the possession of weapons or narcotics on school grounds. The knowing failure to make such a report to the police, or deterring others from doing so, should be designated a misdemeanor.

(9) Legislation should be proposed and enacted to make available to businesses and organizations the sexual assault, child molestation, and pornography arrest records of prospective and present employees whose work will bring them in regular contact with children.

(10) Legislation should be proposed and enacted to accomplish the following:

(a) Require victim impact statements at sentencing.

(b) Provide for the protection of victims and witnesses from intimidation.

(c) Require restitution in all cases, unless the court provides specific reasons for failing to require it.

(d) Develop and implement guidelines for the fair treatment of crime victims and witnesses; and

(e) Prohibit a criminal from making any profit from the sale of the story of his crime. Any proceeds should be used to provide full restitution to his victims, pay the expenses of his prosecution, and finally, assist the crime victim compensation fund.

(11) Legislation should be proposed and enacted to establish or expand employee assistance programs for victims of crime employed by government.

(12) Legislation should be proposed and enacted to ensure that sexual assault victims are not required to assume the cost of physical examinations and materials used to obtain evidence.

Chapter 23

CONSUMER FRAUDS AND DECEPTIONS

OVERVIEW

Defrauding the elderly can mean big profits to the unscrupulous. Not only is the over-65 market a lucrative source of consumer expenditures, worth well over $60 billion annually, but a number of age-related factors, such as reduced fixed income levels and chronic health conditions, contribute to making the elderly the easiest targets for economic abuse by charlatans, quacks, and quick-buck artists. Ironically, at the same time that older consumers as a cumulative market are growing in consumer power, as individuals many live close to the poverty line and have little in the way of disposable income. Consequently, crimes aimed at the elderly's pocketbooks far too frequently have severe consequences for the victims.

In response to these factors, the Senate Special Committee on Aging has initiated a broad-based examination into consumer frauds and the elderly. As part of this inquiry, the committee held a field hearing in Harrisburg, Pa., on August 4, 1981, and has conducted a national survey to assess the impact of frauds against the elderly. In addition, several members of the Senate Special Committee on Aging introduced legislation, S. 1407, to strengthen the U.S. Postal Service's ability to combat frauds perpetrated through the mail. The following is an overview of the major issues surrounding economic frauds and deceptions against the elderly and a summary of the committee's activities in this area.

Fraud can be defined as theft by trickery. The weapons of fraud are deceit and gimmicks, not guns. Victims of fraud are not robbed by physical force. They are not attacked or assaulted. For the most part, they are persuaded to part with their money by trickery, misrepresentations, and false promises of windfall profits. The perpetrators are not thugs or hoodlums, but most likely individuals or companies that appear to be respectable and responsible.

A. HEARING IDENTIFIES MAJOR FRAUD AREAS AFFECTING THE ELDERLY

To learn more about the range of frauds perpetrated against the elderly, the severity of their impact, and ways of solving problems, Senator Heinz, chairman of the Senate Special Committee on Aging, held a hearing on August 4, 1981, in Harrisburg, Pa., on "Frauds Against the Elderly." Witnesses testified to an array of frauds, deceits, and callous exploitation worked against the elderly. The witnesses included noted national authorities, a convict who made a career out of defrauding the elderly, and Pennsylvania officials who testified on problems relating to frauds against the elderly on a State level.

The hearing included demonstrations of fraudulent techniques and devices commonly used against the elderly. Virginia Knauer, Special Assistant to the President, and Director of the U.S. Office of Consumer Affairs, displayed fraudulent medical devices such as an electrogalvanic bracelet and an accupressure massage mat. Kenneth Fletcher, Chief Postal Inspector, U.S. Postal Service, dramatized the danger of mail order "miracle cures" by citing an example of a "cancer cure" which consisted of contaminated kelp compound that the individual was to inject into himself. The product was seized by Postal officials and upon analysis was determined to be so full of toxic substances that use of it described in the accompanying advertising material could have caused death. Chief Fletcher also described a $500,000 real estate scam that drove a retired farmer to suicide. Convicted felon and former counterfeit coin dealer, Hap Seiders, gave examples of common swindling techniques, such as changing his corporation's name to avoid detection by authorities and of several financial investment scams.

Ms. Knauer and Mr. Fletcher both testified to the efforts currently taking place on a Federal level to combat fraud against the elderly. Ms. Knauer stated that the administration is working to reduce these crimes through a program of increased public awareness including consumer education through the media and of public displays of fraudulent products.

Mr. Fletcher described mail fraud as a high priority for the U.S. Postal Service and praised bill S. 1407 (see below) as a vehicle for strengthening the Postal Service's ability to investigate and restrain fraudulent schemes.

Pennsylvania officials related the range and depth of problems related to economic frauds against the elderly on a State level.

Terry Lazin, director of the Pennsylvania Bureau of Consumer Protection, testified that her office receives about 5,000 complaints yearly from the elderly concerning economic crime. Ms. Lazin estimated that this figure represents only 5 percent of the total frauds that are actually perpetrated against the elderly.

Other witnesses included the Attorney General of Pennsylvania, the director of the Pennsylvania Bureau of Consumer Protection, the U.S. Attorney from the middle district of Pennsylvania, the Secretary of the Pennsylvania Department of Aging, and the head of the economic crime unit of Philadelphia's District Attorney's office. They described Pennsylvania's efforts to deal with the problem of frauds against the elderly by educating older consumers through an interagency task force established by the Governor.

B. SURVEY ON CONSUMER PROBLEMS AND ECONOMIC FRAUDS AGAINST THE ELDERLY

As an outgrowth of the Pennsylvania hearing, Chairman Heinz directed the committee staff to conduct a national survey of consumer problems and economic frauds against the elderly. The committee sent questionnaires to over 1,300 respondents: 1,000 chiefs of police in both small rural and large metropolitan areas; all State consumer protection offices; and a nationwide sample of district attorneys and attorneys general. The purpose of the survey was: (1) To ascertain how serious are frauds against the elderly; (2) to determine which frauds are most frequently perpetrated against the elderly; and (3) to identify strategies that have been effective in combating these frauds. The detailed findings of the survey are being combined with related research material, all of which will be released in the form of a committee report in the spring of this year.

A preview of the committee's findings concerning frauds against the elderly reveals the following conclusions:

1. CONS AND THEIR SCHEMES ARE WELL ORGANIZED, SOPHISTICATED, AND EFFECTIVE

The committee survey and related study has revealed that those who perpetrate frauds against the elderly, known as "cons," are well organized, sophisticated, and effective. Police authorities report that it is not uncommon for a con, upon leaving one successful location, to exchange the addresses of his easiest "marks" with another con who is just moving into the area. So well organized are some of these individuals that, in those instances where they wish to target the elderly, they have requested from State authorities lists of people who have qualified for a homestead homeowner's tax credit. This information is a valuable starting point because it both identifies older individuals and allows the targeting of those elderly who are homeowners. Older persons are targeted because of the age of their homes, the home's probable need of repair, and attractive equity levels of the homes.

Cons are very sophisticated in their efforts to defraud the elderly. While a con may have "favorite" approaches, every conceivable method has been employed. Fraud schemes; are "worked" through the mails, door to door, via newspaper and magazine ads and over television and radio. Some are simple schemes—such as the "just dropped by" roofing repair company that merely paints over the old roof instead of replacing it. In others, the con game is raised to the level of an art form: such as the "pigeon drop" which takes a number of "players" to execute and years and years of practice to perfect. So successful are these schemes that law enforcement authorities reported instances where cons have actually held classes to pass these techniques on to younger, less experienced individuals.

Cons are effective at defrauding the elderly. They are students of human nature, the best of them are artisans of psychology. Many see themselves as professionals. They know how to play upon the fears and hopes of their prey. To the poor they make "get rich quick" offers, to the rich they offer investment properties, to the sick and those with hopeless diseases they offer "miracle cures" and "new scientific discoveries" for the relief of pain, to the healthy they offer "fabulous vacation tours," and to those who are fearful of the future they offer a confusing array of useless insurance plans.

To avoid being caught, cons usually avoid leaving a paper trail. Whenever possible they deal in cash. They avoid written estimates, avoid properly drawn contracts and insist on haste to take advantage of a "today only" special price.

2. PERVASIVENESS OF FRAUD

The committee's survey has determined that fraud against the elderly is both widespread and pervasive. Law enforcement and consumer specialists from Maine to California and from Texas to North Dakota reported frauds against the elderly. No area of the country, whether it be rural or large and metropolitan, was immune. Our respondents reported that not only was fraud widespread, but that it also pervaded nearly every aspect of the elderly's lives—from health care to housing and from investment programs to travel promotions.

3. FRAUD IS ON THE INCREASE

Consumer offices appear to be experiencing the greatest increase in complaints with 72 percent of respondents reporting increases, while 68 percent of large city police departments and 51 percent of small city police departments reported increases. Respondents estimated that a surprising 84 percent of all complaints were said to be valid and not simply instances of misunderstanding. The reported increases in consumer complaints combined with their assessed validity gives credence to yet another study's finding that fraud against people of all ages is increasing at the shocking rate of 12 percent per year. Testimoney before the Special Committee on Aging by the U.S. Postal Inspection Service further confirms this increase as do the findings of independent consumer groups such as the Arthritis Foundation.

Once consumer offices were active within nearly every Federal agency. In recent years many of these offices have become less adequately staffed and less adequately supported by their departments. A Federal program once operated by the Justice Department's Law Enforcement Assistance Administration, which made fraud prevention funds available to local communities, is no longer in effect. Similarly, other Federal funds earmarked for consumer service have been lost in block grants. This reduction in the Federal antifraud presence has had a marked impact on the funding of State and local efforts to combat fraud.

Even though the fiscal data collected by the committee's survey reflected the period prior to the implementation of the 1982 budget cuts, 35 percent of State consumer offices were already experiencing budget cuts. The budgets of 47 percent of consumer offices remained the same during the 1981 fiscal year. Fifty-six percent of the heads of State consumer offices who reported 1981 budget changes stated that these changes reduced their ability to tabulate and resolve consumer complaints and conduct consumer education.

Police departments were not as affected by budget changes during the 1981 fiscal year. Twenty-one percent of large city chiefs of police and 27 percent of small city police departments experienced budget cuts in 1981.

The Alexandria, Va., Consumer Office (VCO) is an example of the effects of budget tightening. Even though in 1980 VCO won compensation of $107,357 in cash, goods, and services for city residents ($20,000 more than their budget for that year), in 1981 their staff was cut from six people to two, leaving the office without a director. The "Senior Consumer," a Florida publication mailed to 51,000 elderly once a month, and an associated toll-free consumer hotline are also being abolished because of budget restraints.

4. Elderly Persons Are the Most Frequent Fraud Targets

A startling 77 percent of those responding to our survey said that the elderly are more often the targets of fraud than are younger people. While some would interpret this figure to mean that age indicates an individual's vulnerability to fraud, our research and that of others suggests that this is not true. The elderly are not victimized more often because they are older, they are victimized more often because, compared to other age groups, they are characteristically more attractive targets for fraud. The distinction is critical. The elderly are victimized more frequently, not because they are weak and helpless, but in part because they themselves and others perceive them to be ineffective in the marketplace. If the elderly were victimized more often simply because they were older there would be little that could be done to decrease their vulnerability. A person's susceptability to fraud, however, is not exclusively age-dependent; conditions which make a person more susceptable to fraud can be identified and effective strategies to combat them can be developed.

5. Fraud's Impact Is Most Severe on the Elderly

While a person age 65 is not significantly different from a person age 64, the elderly as a group do have more difficulty coping with the impact of fraud than do younger people. So not only are the elderly more frequently targeted, but when victimized, they are less able to recover. Over 84 percent of all respondents said that this seems to hold true for the physical, emotional, and financial impact of frauds on the elderly.

6. Ten Most Harmful Frauds Against Elderly Persons

Survey respondents were asked to identify the 10 most harmful frauds against the elderly. Harm was defined in terms of financial, emotional, and physical impact on elderly victims. The 10 most harmful reported frauds are:

(1) Quackery and medical-related frauds.
(2) Home repair and improvement fraud.
(3) Bunco schemes.
(4) Insurance fraud.
(5) Social frauds.
(6) Housing, land sales, and rental fraud.
(7) Business opportunity and investment fraud.

(8) Nursing home fraud.
(9) Automobile purchase and repair fraud.
(10) Funeral fraud.

7. How To Combat Fraud

The committee's survey and study have identified a number of ways to effectively combat frauds against the elderly. Perhaps the single most important is the realization by elderly persons, and those working with them, that an increased risk of victimization is not a necessary aspect of old age.

It appears that if the elderly were to become tougher consumers, that is, if they were to complain more and press their cases harder, they could effectively counter the self-fulfilling expectation that they are safe "marks." Sixty-seven percent of our survey respondents indicated that the elderly complain less than younger consumers.

If the research is correct, the elderly have the greatest potential for reducing their susceptibility to fraud than any age group.

The committee identified 10 steps that elderly consumers can take which will help lessen their vulnerability to fraud. These are:

(1) *Check with officials* (the police, consumer offices, the Better Business Bureau, State boards and Federal agencies) before agreeing to any transaction.

(2) *Learn about fraud* and how to avoid it.

(3) *Shop around* before purchasing a service or product, getting references and comparing prices.

(4) *Understand* thoroughly any papers *before* they are signed. Check with a lawyer.

(5) *Deal only* with local, well-established, reputable officials.

(6) *Never* accept business from anyone who appears at your door without a specific request.

(7) *Ask for the ID* of any unknown solicitor before doing business with them (and have it verified).

(8) *Never* conduct business over the phone.

(9) *Never* pay for a service before it is performed to satisfaction.

(10) *Never* accept offers of quick profits.

If an older person is victimized by fraud, several steps should be taken as soon as possible:

(1) Notify officials immediately (the police, consumer offices, the Better Business Bureau, State boards and Federal agencies).

(2) Allow the story to be told to prevent others from becoming victims of the same scheme.

(3) If the transaction is made by check, stop payment immediately after the fraud is discovered.

(4) Cooperate with prosecution of the crime and the crime's perpetrator.

(5) Save any evidence—such as receipts, the product itself, evidence of the faulty service or contracts.

The committee survey also found that there is currently little cooperation between law enforcement authorities and aging groups in their efforts to combat fraud. Fifty-six percent of respondents *do* *not* work with local or State aging organizations or area agencies on aging in any area of fraud prevention or resolution.

In summary, the survey and related study indicates that frauds against the elderly are increasing while resources to combat them are diminishing. Our research has also demonstrated that these fraud statistics are not necessary aspects of aging. There is a need for immediate and concentrated action by local, State, and Federal units of government,along with the aging network and the elderly themselves to reverse this trend.

C. LEGISLATION TO STRENGTHEN THE POSTAL SERVICE'S AUTHORITY TO COMBAT MAIL FRAUD

In an effort to strengthen the Postal Service's authority to combat mail fraud, Senators Pryor, Heinz, and Chiles introduced legislation, S. 1407, to strengthen the enforcement powers of the U.S. Postal Service against fraudulent consumer schemes perpetrated through the mails.

Testimony by Postal Inspection personnel indicated that mail frauds, estimated to involve billions of dollars per year, are on the increase. Postal authorities estimate that 60 percent of these frauds are perpetrated against older Americans. Due to low incomes, limited mobility and poor health, many elderly rely on mail-order sales for conducting their business.

While the Postal Inspection Service has accumulated an impressive track record in putting an end to mail-fraud schemes, several obstacles impede its efforts to obtain an even greater number of successful prosecutions and to permanently ban those convicted of wrongdoing from reestablishing their fraudulent operations by simply changing their names or operations. This bill would do away with these impediments.

In order for the Postal Inspection Service to evaluate whether a product measures up to its advertised claims, the Service must send for the item through the mail in the same way an ordinary citizen does. It can take up to 3 months to receive a product, which must then be evaluated. The Service must then approach an administrative law judge or a U.S. attorney for action. The delay caused by this process is critical.

Defrauders of the elderly know about this procedure. As a result, they commonly place an ad, take orders for several months, then fill all the orders at one time as they close down their business operation, often simply to reopen under another name. By the time the inspectors receive their product, the perpetrators and their assets have vanished.

S. 1407 provided a solution to the problem. It would have given Postal Service employees the authority to appear in person at the address mentioned in a suspicious ad, present a postal money order for the amount of the purchase, and receive the product immediately.

In addition, the bill would have given the Chief Postal Inspector the authority to obtain an order barring named individuals from engaging further in the scheme which was the subject of a prior action. Violations of this order could be punished with civil penalties up to $10,000 for each violation.

S. 1407 would not have added significant new costs to the Treasury. It would have, if passed, gone a long way toward providing the Postal Inspection Service with the necessary tools to move promptly and efficiently against those who victimize elderly persons.

S. 1407 was favorably reported by the Senate Committee on Governmental Affairs on April 29, 1982. The full Senate voted by unanimous consent to adopt S. 1407 on May 19, 1982. The House companion to this measure, H.R. 7044, was reported by the Post Office and Civil Service Committee on October 4, 1982. On December 13, 1982, the House passed H.R. 7044 with amendments. However, the measure was not considered by the Senate again during the 97th Congress.

On February 3, 1983, Aging Committee Chairman Heinz, Ranking Minority Member Glenn, and Senator Stevens of the Government Operations Committee joined Senator Pryor in introducing S. 450. S. 450 is substantially similar to S. 1407, as introduced in the previous Congress.

Part VII

CONFERENCES

Two major conferences on aging—the 1981 White House Conference on Aging and the 1982 World Assembly on Aging—marked an extraordinary national and international focus on aging policy. Although many important conferences on aspects of aging and public policy occur every year, these two major events, sponsored by the U.S. Government, provided a unique opportunity to assess the "state of the art" in both national and international public policy concerning the aged and aging.

Although the White House Conference took place in November 1981, the important final reports and priority recommendations that constitute the most visible results of the Conference were not released until mid-1982. These documents represent a distillation of the massive intellectual effort that went into the preparation for and conduct of the Conference itself. In addition, The Special Committee on Aging conducted its own poll of the delegates to ascertain the most important of the over 600 recommendations approved at the Conference.

The 1982 World Assembly on Aging was held during July in Vienna, Austria. Sponsored by the United Nations, it attracted representatives from 125 countries and became the first occasion for many developing nations to address the future implications of aging issues for their own population. Although no dramatic gesture or initiative emerged from the World Assembly, its true significance is more subtle. By design, it was an event to help begin a process by building an awareness of the need for future action. In addition, the United Nations will elevate aging concerns as a priority within its own work. The U.S. delegation made substantial contributions to the work of the Assembly and their report is reprinted in full as part of volume 2.

Chapter 24

1981 WHITE HOUSE CONFERENCE ON AGING

OVERVIEW

The 1981 White House Conference on Aging provided this Nation the opportunity to confront both short-term and long-range issues of concern to an aging society and to develop recommendations and directions for responsive public action. A number of factors were cited as being significant in convening the 1981 Conference. They included:

- —The increase in the total number of older people in America and the growing proportion they represent in the population as a whole.
- —The phenomenon of longer life and the projected continued increase in the size of the older population.
- —The increased body of knowledge available about why and how people age.
- —The growth in private and public service for older Americans.
- —The increased awareness on the part of public policymakers that the older population is—while beset with a multitude of problems—also an important national resource.

When Congress authorized the 1981 White House Conference on Aging in 1978 (Public Law 95-478), it recognized that the dramatic demographic and societal changes made it essential that a renewed national policy on aging be developed. Congress also noted that emphasis be placed on the "right and obligation of older individuals to free choice and self-help in planning their own futures." The 1981 White House Conference on Aging marked the beginning of a process designed to articulate a comprehensive and coherent national policy on aging for the coming decade.

Between November 30, 1981 and December 3, 1981, over 4,000 delegates and observers met in Washington, D.C., to deliberate and debate the major issues that affect the elderly. The outcome of their discussion resulted in the development of over 600 recommendations for public and private action in the field of aging.

On June 2, 1982, the Secretary of the Department of Health and Human Services transmitted to the President and the Congress the final report of the Conference. The report contained 53 recommendations on the national economy, on retirement income, on health, on social benefits and services, and on research. At the same time as the final report was submitted, the Secretary also provided his recommendations for administrative action and legislation necessary to implement the recommendations contained in the final report. The Secretary reported that the 53 recommendations were the "result of a careful process which considered more than 600 recommendations produced by the Conference, and the results of the postconference survey through which delegates and observers provided their assessment of the Conference recommendations."

A. THE 1981 CONFERENCE

1. The Legislative Mandate

During congressional hearings in 1978 on proposed amendments to the Older Americans Act, several representatives of national organizations on aging expressed strong support for a joint House-Senate resolution calling for the 1981 White House Conference on Aging. Support also came from then Department of Health, Education, and Welfare Secretary Joseph Califano and Administration on Aging Commissioner Robert Benedict.

On October 18, 1978, President Carter signed legislation which authorized the 1981 White House Conference on Aging. This was the fourth time a national forum on aging had been held in Washington since 1950. Although the first one was not designated as a White House Conference, the Conferences in 1961 and 1971 were.

The legislation which authorized the Conference noted nine policy areas for consideration. They included:

(1) Improvement of the economic well-being of older individuals.

(2) Increase in availability of comprehensive and quality health care for older individuals.

(3) Expansion of availability of appropriate housing with supportive services to promote increased independence for older individuals.

(4) Increase in the comprehensiveness and effectiveness of the social service delivery system for older individuals.

(5) Promotion of greater employment opportunities for middle aged and older individuals.

(6) A more comprehensive and responsive long-term care policy.

(7) A national retirement policy that contributes to fulfillment, dignity, and satisfaction of retirement.

(8) Policies to overcome false stereotypes about aging and the process of aging.

(9) A national policy with respect to biomedical and other appropriate research.

In addition, the legislation for the Conference assigned major responsibility to the Secretary of Health and Human Services for both the planning and implementation of the Conference. The Secretary was to be assisted by the Commissioner on Aging and the Director of the National Institute on Aging in carrying out these duties.

The legislation also set forth a number of pre- and post-Conference requirements which included:

- —Providing financial assistance to State and area agencies on aging, and other appropriate organizations to enable them to organize and conduct pre-White House Conferences on Aging.
- —Preparing and disseminating background materials to the delegates to the Conference.
- —Appointing an advisory committee to the Conference: and

—Issuing a final report to the President and the Congress within 180 days following Conference adjournment on the findings and the recommendations of the Conference, and within 90 days after the release of this report, submission of recommendations for legislative and administrative actions.

Congress appropriated $6 million to conduct the 1981 Conference. In addition to paying for arrangements for the Conference itself and for the expenses of the delegates who attended, the funds have been used to pay operating expenses and a staff which began initial planning in mid-1979 and concluded its work on the final Conference report in June 1982.

2. Major Themes

The development of new economic, cultural, and social trends had a major impact on the deliberation and outcome of the 1981 White House Conference on Aging. Knowledge about the aging populations and elderly populations expanded appreciably during the decade preceding the 1981 Conference. Membership in aging interest organizations increased during the 1970's, as did the number of local and national organizations which focused their attention on many specific issues affecting the elderly. By the end of the decade of the 1970's, major public concern regarding the growing proportion of Government outlays to the older population was very much evidenced. Issues related to social security, private pensions, health care, social services, employment, leisure time, and retirement dominated public debate in charting future directions in public policy for an aging population.

As a result of these changes and in preparation for the 1981 Conference, a host of pre-Conference activities were implemented. The result of these activities set the stage for the major themes discussed during the actual Conference.

Pre-White House Conference activities began in the spring of 1980, and were designed to insure grassroots involvement of older persons, minorities, low-income groups, aging organizations, and other interested individuals. Pre-Conference activities included:

—Over 9,000 community forums held in towns and cities across the Nation to begin discussions of aging issues at the grassroots level.

—Fifty-eight statewide conferences in States and territories and in the Navajo Nation, to assimilate the views of citizens from each area of the country.

—Sixteen technical committees which gathered data and made recommendations on a wide range of issues.

—Forty-two miniconferences which examined special aging issues—issues that affected particular populations or issues that could not be treated in depth through the general 1981 White House Conference process.

Reports from these activities were made available to the delegates and observers who took part in the national Conference.

(A) TECHNICAL COMMITTEES

Experts from various fields were appointed by the Secretary of Health and Human Services to serve on 16 technical committees.

Each committee was charged with developing issues and recommendations in a particular area for consideration as background material for the delegates to the 1981 White House Conference on Aging.

The following technical committee reports have been published by the Conference: Retirement income; health maintenance and health promotion; health services; social and health aspects of long-term care; family, social services and other support systems; the physical and social environment and quality of life; older Americans as a growing national resource; employment; and research in aging.

Also, seven other topics were addressed which dealt with creating an age integrated society: Implications for societal institutions, implications for the economy, implications for the educational systems, implications for spiritual well-being, implications for the family, implications for the media, and implications for governmental structures.

(B) MINICONFERENCES

The miniconferences on aging were held to examine issues such as consumer concerns, mental health, long-term care, housing, minority aging, energy, etc. These conferences were recognized by the White House Conference on Aging and were convened by a host of organizations that wished to focus national attention on special aging issues.

The 42 miniconferences on aging were conducted in the following areas:

—Recreation, leisure, and physical fitness.
—Aging and alcoholism.
—Energy equity and the elderly.
—Public/voluntary collaboration: A partnership in contributing to independent living for the aging.
—National health security.
—Concerns of low-income elderly.
—Vision and aging.
—Alzheimer's disease.
—Arts, the humanities and the older Americans.
—Older women.
—Lifelong learning for self-sufficiency.
—The urban elderly.
—Rural aging.
—Long-term care.
—Non/services approaches to problems of the aged.
—Spiritual and ethical value system concerns.
—Transportation for the aging.
—American Indian/Alaskan native elderly.
—Pacific/Asian elderly "Pacific/Asians: The Wisdom of Age."
—Environment and older Americans.
—Rights of the institutionalized elderly and the role of the volunteer.
—Veterans.
—Mental health of older Americans.
—Saving for retirement.

—Hispanic aging.
—Challenging age stereotypes in the media.
—Oral health care needs of the elderly.
—Housing for the elderly.
—Consumer problems of older Americans.
—Senior centers.
—Elderly hearing impaired people.
—Black aged.
—Legal services for the elderly.
—Simplifying administrative procedures and regulations in programs affecting the elderly.
—Intergenerational cooperation and exchange.
—Self-help and senior advocacy.
—Euro-American elderly.
—Inter-relationship of Government, private foundations, corporate grant-makers and unions.
—"The National Dialogue for the Business Sector."
—Foot health and aging.
—Pacific Islanders jurisdiction.
—Gerontological nursing.

3. CONFERENCE LEADERSHIP

Although the 1981 White House Conference on Aging was authorized in October 1978, initial planning for the Conference did not officially begin until June 1979. With the change in administration in January 1981, Secretary of Health and Human Services Richard Schweiker assumed the overall responsibility for the Conference. In March 1981, Secretary Schweiker named David Rust as the new executive director for the Conference. Mr. Rust has previously served 4 years on the staff of the Senate Special Committee on Aging, the last 2 of those years as minority staff director.

In May 1981, 58 newly appointed advisory committee members were sworn in by the Secretary of HHS and began their work of helping Director Rust and his staff prepare for the Conference. Constance Armitage of Inman, S.C., was named chairperson of the committee and the Conference. Ms. Armitage is an associate professor of art history at Wofford College, Spartanburg, S.C. Six deputy chairpersons were also named for the Conference: J. Glenn Beall, former U.S. Representative and Senator from Maryland (6 years as ranking minority member on the Senate Subcommittee on Aging and 4 years as a member of the Special Committee on Aging), Frostburg, Md.; Anna Brown, the executive director of the Mayor's Commission on Aging, Cleveland, Ohio; Dr. Arthur Flemming, former Secretary of Health, Education, and Welfare, and Commissioner on Aging and the chairman of the 1971 White House Conference on Aging, Alexandria, Va.; Consuelo Garcia, chairman of the Mexican-American Cultural Society of Houston, Tex.; William Kieschnick, president and chief executive officer of Atlantic Richfield Co., Los Angeles, Calif.; and Eleanor Storrs, a board member of the National Alliance of Senior Citizens, Coronado, Calif.

In addition to the 58-member advisory committee, four congressional leaders were named by Secretary Schweiker to serve as honorary chairmen for the White House Conference on Aging: Senator

John Heinz (R-Pa.), chairman of the Senate Special Committee on Aging; Senator Lawton Chiles (D-Fla.), ranking minority member of the committee; Representative Claude Pepper (D-Fla.), chairman of the House Select Committee on Aging; and Representative Matthew Rinaldo (R-N.J.), ranking minority member of the committee.

In October 1981, Secretary Schweiker announced a change in the Conference director's position. Betty Brake was appointed new executive director for the balance of the Conference. Ms. Brake was former director of older Americans volunteer programs at the ACTION agency.

In January 1982, Stephen Gibbens replaced Ms. Brake as the executive director for the Conference, and was charged with the responsibility for preparing the final report and phasing out Conference operations.

4. Conference Issues

Approximately 2,260 voting delegates and close to 2,000 official observers attended the 1981 White House Conference on Aging. The Conference was organized around 14 issue area committees. Delegates and observers were assigned to one of these committees, and the majority of their time at the Conference was spent developing and discussing recommendations for the committees.

The title and brief description of each of the issue area committees were as follows:

(1) "Implications for the Economy of an Aging Population": This committee dealt with such matters as the effects of inflation on older Americans, means for supporting a potentially larger dependent population and the impact of age discrimination on employment opportunities and productivity.

(2) "Economic Well-Being": Discussion focused on social security, other public retirement programs, private pensions, possible tax incentive to encourage saving for retirement, and public assistance.

(3) "Older Americans as a Continuing Resource": This committee reviewed various avenues of employment for older Americans, including full- and part-time, self-employment, volunteer and community service work, training for continuing or future careers, and possible tax and other incentives for all of these activities.

(4) "Promotion and Maintenance of Wellness": Health education, physical fitness, nutrition, and disease prevention techniques were primary issues addressed by this committee.

(5) "Health Care and Services": This committee discussed the quality and delivery of health care, various methods of financing health services and special aspects of health services for older Americans.

(6) "Options for Long-Term Care": This committee dealt with the planning and coordination of quality health and social services for those who need long-term care either at home or in an institutional setting, with special attention paid to means of facilitating self-help and freedom of choice.

(7) "Family and Community Support Systems": This committee discussed how family members, friends, and neighbors are able to deal with the needs of older Americans and consider ways to make it easier to meet responsibilities.

(8) "Housing Alternatives": This committee reviewed affordable options in housing for older Americans and alternatives for independent living. Crime prevention was also addressed.

(9) "Conditions for Continuing Community Participation": This committee discussed the availability, accessibility, and importance of civic, recreational, cultural, and other activities to older Americans. Transportation was also a major focus.

(10) "Educational and Training Opportunities": This committee discussed planning and counseling activities in preretirement years, lifelong learning, self-help and advocacy, and other educational activities.

(11) "Concerns of Older Women: Growing Numbers, Special Needs": This committee examined income, employment, health, and the quality of life of older women, who comprise a large segment of the overall population.

(12) "Private Sector Roles, Structures and Opportunities": This committee focused on policies of business, labor, charitable, and other voluntary organizations toward the Nation's elderly citizens.

(13) "Public Sector Roles and Structures": This committee addressed roles and strategies for all levels of government in providing services to elderly citizens.

(14) "Research": This committee discussed the need for knowledge about aging, the impact of aging research on current policies, and means, both public and private, of supporting research.

B. POST-CONFERENCE ACTIVITIES

1. The Final Report

In the legislation which authorized the 1981 White House Conference on Aging, Congress mandated that "a final report of the Conference, which shall include a statement of a comprehensive, coherent national policy on aging together with recommendations for the implementation of the policy, be submitted to the President not later than 180 days following the date on which the Conference is adjourned."

The final report of the Conference was transmitted by Secretary Schweiker (DHHS) on June 2, 1982. The report contained 53 major recommendations on the national economy, on retirement income, on health, on social benefits and services, and on research. These recommendations, as stated in the report, were selected as "the result of a careful process which considered more than 600 recommendations produced by the delegates at the national meeting of the Conference, and the results of the post-Conference survey through which delegates and observers provided their assessment of the Conference Recommendations."

In addition to the final report, the 1981 White House Conference on Aging Act also required that the Secretary of Health and Human Services submit within 90 days after the submission of the report his recommendations for administrative action and legislation necessary to implement a national policy on aging. The implementation report was transmitted to the President and Congress on the same date the final report was submitted—June 2, 1982.

Both the 1971 and 1981 White House Conference on Aging faced the problem of organizing the hundreds of recommendations that were developed at the Conference, and providing a mechanism for Conference participants to express themselves on all recommendations. To deal with these concerns the National Advisory Committee of the 1981 White House Conference on Aging voted to conduct a post-Conference survey of delegates and observers to gain a better insight as to the views of participants on all Conference recommendations. In December 1981, the delegates and observers to the White House Conference on Aging were asked to give their personal views on the Conference, each committee's report, and the recommendations that emerged.

The results of this survey, together with the technical committee reports and the Conference committee summary reports, were used as a basis for developing the statement of a national policy on aging in the final report.

2. SUMMARY OF MAJOR RECOMMENDATIONS

The final report of the 1981 White House Conference on Aging contained 53 major recommendations as part of the national policy on aging. The report was divided into five sections addressing areas of major concern to the Nation and its elderly citizens. They included: The economy, income in old age, health care, social benefits and services, and research. Although the report noted the difficulty in selecting from the many recommendations developed at the Conference, it highlighted four highly important recommendations that resulted from the post-Conference survey. They included the following:

—To strengthen the Social Security system, the recommendations of the National Commission on Social Security Reform, whose bipartisan membership was appointed by the President, Speaker of the House, and the Majority Leader of the Senate, should be given prompt and thorough consideration by the President and Congress.

—Congress should promptly enact the legislation to prohibit mandatory retirement.

—To increase the availability of home and community based health care, States should develop programs under section 2176 of the Omnibus Budget Reconciliation Act of 1981, which allows them to use medicaid funds to provide in-home and community care services to persons eligible for medicaid.

—Both the public and private sectors should place greater emphasis on preventive health care through effective programs aimed at promoting healthy lifestyles and preventing illness.

3. MAJOR RECOMMENDATIONS

The 1981 Conference produced a remarkable set of recommendations. The basic theme of all of the recommendations was to assist the aging person to maintain his or her independence and to provide dignified protection and assistance for those unable to maintain full independence. Although many recommendations were framed in the long run, many others suggested policies that could lead to immediate action for improving the quality of life of older people.

The following is the listing of the 53 recommendations suggested for implementing the national policy on aging which were included in the final report of the 1981 White House Conference on Aging. The recommendations are listed by major issue area.

(A) PREPARING OUR ECONOMY FOR AN AGING POPULATION

In light of projected labor shortfalls in the upcoming decades, it is both desirable and necessary that elderly persons wishing to remain in the work force not be discouraged from doing so by government regulations. Toward this end, mandatory retirement should be eliminated.

To improve the economic well-being of elderly Americans, high priority should be given to macro-economic policies designed to control inflation.

Private sector firms should show all feasible restraint under existing circumstances to limit price increases.

Governments at all levels should be wary of imposing any price, cost, or tax increases that would lead to increased inflation.

Tax and economic policies must be pursued that increase the amount and improve the quality of productive capital available to the American worker.

Steady monetary policy is needed to promote economic stability, reduce uncertainty, and facilitate retirement planning.

The growth in Federal budget outlays must be reduced to avoid neutralizing the positive effects of increased private saving.

Regulations that unnecessarily inhibit the private sector's ability to meet society's needs should continue to be rescinded.

To enhance increased labor force participation by older workers there should be a gradual elimination of disincentives in public retirement programs.

Tax policy should be directed toward encouraging saving and investment in productive capital.

A program of slow steady money growth, reduced marginal tax rates, and reductions in the growth of Federal outlays is recommended for the control of inflation.

(B) INCOME IN OLD AGE

The solvency of the social security trust fund must be protected in the short-run while long-range solutions are developed.

A long-range solution to the financial problems of the social security system must be developed which insures that those contributing to it will also receive future benefits.

Interfund borrowing should be permitted in order to maintain the financial viability of the social security trust funds.

Employment opportunities for older men and women should be increased through development, wherever economically feasible, of "step-down," part-time, temporary, shared-time, and flex-time job opportunities. Management and labor should support such innovations.

Disincentives of the social security program to continued employment should be eliminated. Where feasible, other laws and regulations which inhibit increased hiring of older workers should be changed so as to no longer inhibit employment of older persons.

The earnings test for social security should be removed for persons who have reached the age of full retirement.

Employer pensions should be fostered by public policy.

Public and private policies which support individual initiative to provide for retirement and other goals through private savings should be encouraged.

Programs which enable older persons to gain income from the equity value of their homes through reverse mortgages should continue to be explored and encouraged if found to be feasible and prudent for all parties involved.

(C) HEALTH CARE FOR THE ELDERLY

A continued examination of health care and social service delivery systems is desirable to produce a better organized and integrated approach to meeting the needs of the elderly more efficiently.

Traditional health and mental health agencies should be encouraged to collocate their services within a senior center, thereby maximizing the access of that service to older persons and fulfilling the mandate to reach older persons. Also, senior citizens are thereby enabled to share as volunteers in planning, promoting and carrying out such health programs and goals as health checkups, maintenance of wellness, and helping other senior citizens with meals-on-wheels, fellowship, and friendship.

The Department of Health and Human Services should investigate methods of modifying provider reimbursement under medicare in order to alleviate inflationary pressures on the medicare trust funds. The Department should determine the effects of departing from retrospective cost-based reimbursement and should identify substitute methods that may produce incentives for greater efficiency.

Public programs should be reformed to give beneficiaries and providers incentives to use lower cost settings where feasible and consistent with preserving the quality of care.

The elderly should be permitted to use their medicare benefits to enroll in private health plans meeting certain minimum standards for coverage and financial stability. Through such a voucher system, beneficiaries would be free to buy coverage tailored to their individual needs and to benefit from their willingness to enroll in efficient plans. Beneficiaries wishing to remain in medicare should be free to do so.

To facilitate the development of a voluntary voucher program, the medicare and medicaid programs should undertake further experimentation with innovative service delivery and financing arrangements such as the ongoing demonstration involving prepayment to HMO's.

States are encouraged to use their existing authority to provide a broader spectrum of long-term care services.

A full range of setting and services should exist so that individuals have maximum choice in living arrangements and services.

Limited public resources should, to the extent feasible, be targeted on those functionally disabled individuals who, without aid, would enter expensive nursing homes. Those most at risk include frail elderly individuals who have no immediate family and are also poor.

The delivery system for long-term care services should be rationalized to ensure continuity of care and encourage efficiency in the delivery of services.

Emphasis should be placed on developing and disseminating educational materials for the elderly, as a component of health promotion efforts by Federal, State, and local governments, as well as private entities.

The health policy of the Nation should be to: (a) Improve the health of all Americans, especially the elderly; (b) contain health care cost; and (c) focus attention on health promotion and disease prevention.

Additional consideration needs to be given to the benefits the elderly can derive from behavioral and lifestyle modifications within individual control. Information regarding appropriate patterns and probable benefits need to be made a part of health education for the elderly and for those who serve them.

Restructure the health care delivery system so that preventive medicine and wellness are primary objectives and take immediate action to place temporary limits on the rate of increase in hospital costs.

Emphasis should be given to a comprehensive review of prevention-oriented screening procedures for the elderly to determine their medical efficacy. In addition, attention should be given to the cost-effectiveness of such procedures. Results of that review need to be widely disseminated to the elderly and to health professionals, to better target prevention efforts and to provide the basis for considering what services are cost-effective from the viewpoint of the individual, the health service delivery system, and third-party payers.

(D) SOCIAL BENEFITS AND SERVICES FOR THE ELDERLY

Efforts to target Federal resources on older persons most in need should be expanded.

States and localities should be encouraged to improve access to existing services for older persons, rather than create separate service delivery mechanisms for the elderly.

The Department of Health and Human Services should continue to work with Federal departments, organizations and voluntary groups to assure that appropriate services are available to elderly persons in need.

States and localities should be encouraged to promote and maintain intergenerational activities and to integrate the elderly into existing service programs.

Public and private agencies serving the aging should be cognizant of the particular needs of minority populations, including blacks, Hispanics, Asian Pacific Americans, and Native Americans.

The Federal Government should work with private sector, State, and local governments to explore housing options for older persons. This exploration should include analysis of innovative financing, construction, and living arrangements.

Transit authorities should explore ways in which the needs of the elderly can be met—such as mid-day route and fare adjustments—without increasing the costs or decreasing the quality of rush hour service.

Programs to encourage voluntary service by the elderly should be encouraged by both the public and private sectors.

Educational programs, under a variety of auspices, should be available to older men and women and should provide skilled training, job counseling, and job placement, all of which will enhance their ability to stay in or rejoin the workforce or to enhance second careers.

Older persons should be encouraged to play an active role in crime prevention and should be made aware of the steps they can take to minimize the risk of being victimized.

(E) RESEARCH

The Department of Health and Human Services should improve its coordination of overall strategy for its research on aging to ensure that priority areas are adequately funded and that duplicative research activities are avoided.

Research in disease prevention and health promotion should receive the highest priority. The knowledge we already possess must be exploited. New studies are needed to establish improved biological markers of physiological age. Study of the personal motivators for improved health habits is also essential.

Research on work and retirement, program cost containment initiatives, and long-term care must also receive high priority. The strong rationale for such studies is developed in the chapters of this national policy on aging.

Increased study of senile dementias, including those of the Alzheimer's type, is urgently needed.

The necessary supports for aging research must be protected to ensure a continuing capacity to advance geriatric knowledge.

Research knowledge must continue to be disseminated with maximum effectiveness.

The Department of Health and Human services should meet with private foundations and corporations to coordinate aging research activites and to encourage their increased participation in aging research.

Cooperation and coordination of aging research among American scientists should be fostered, and liaison with the scientists of other countries should be continued.

4. SENATE COMMITTEE ON AGING–AARP/NRTA REPORT

The Special Committee on Aging, by unanimous resolution, was charged by the U.S. Senate to give "early and careful consideration" to the over 600 recommendations emanating from the 14 working committees at the 1981 White House Conference on Aging. In response to this mandate, the special Committee on Aging, in cooperation with the National Retired Teachers Association-American Association of Retired Persons (NRTA/AARP), commissioned Hamilton & Staff, Inc., an independent professional polling firm, to conduct a telephone survey of the delegates to the Conference.

There were some 2,260 delegates to the Conference and, with the cooperation of the White House Conference on Aging, names, addresses, and phone numbers of delegates were obtained as completely as possible. This sorting out process resulted in a starting sample of 2,141 delegates. Of these 2,141 persons, 1,390 interviews were completed and used for the data analysis. This represented 65 percent completion of the final list of delegates.

Among the 1,390 completed interviews, 637 (46 percent) were Governor or State appointed delegates, 386 (38 percent) were congressional delegates, 101 (7 percent) were delegates appointed by the Administration, 62 (4.5 percent) were advisory committee members, 108 (8 percent) were delegates from national organizations, and 96 (7 percent) were unclassified. The interviews included 786 (56.5 percent) delegates 65 or older, and a little more than half (52 percent) of the respondents were women.

The instructions and questionnaire worksheet sent to the delegates asked each delegate to indicate his or her first, second, and third priority recommendation from each of the 14 committees, using the book of recommendation which they received from the White House Conference on Aging staff as part of their conference followup. In addition, each delegate was asked to indicate, in priority order, the 10 overall recommendations they felt were most important regardless of committee. Finally, they were asked to list the five recommendations overall which they most opposed.

An analysis of the survey and personal interviews of the delegates who participated resulted in the following 10 top priority concerns:

—A recommendation on social security was ranked by the delegates responding to the survey as the first priority. This recommendation called for the preservation of the financial integrity of the social security system through emphasis of the "earned right principle" of the program. While asserting that the use of general revenue funds would jeopardize the fiscal integrity of the social security system, the recommendation called on the Congress to take appropriate measures to assure the financial stability of the funds.

—The second priority chosen by the delegates was a recommendation that charged the Congress and the President to develop a national health policy which would guarantee full and comprehensive health services to all Americans. Involvement of all levels of government and the private sector was recommended.

—A recommendation endorsing the validity of the social security system as the foundation of economic security for all Americans, was chosen as the third priority. This recommendation called for the preservation of current levels of medicare and medicaid funding, reaffirmed support for the minimum benefit, current levels of social security benefits, and cost-of-living increases granted at the currently specified times.

—The fourth listed recommendation supported the maintenance of the social security minimum benefit to current and future beneficiaries, continued cost-of-living increases without unnecessary postponement, the expansion of social security coverage to all gainfully employed persons, and opposed changing the system to a voluntary social insurance program.

—The fifth overall recommendation selected by the delegates called for the elimination of mandatory retirement and other forms of discrimination against older workers. In addition, it called on employers to hire older workers on a part time, temporary or shared basis, and emphasized flexible work schedules.

—The sixth recommendation called for the development of a comprehensive national health plan which includes a long-term care community-based health system. In the interim, the recommendation supported the expansion of medicare and medicaid to provide case management, in-home health, mental health and social services. In addition, the recommendation called for increased funding to assure an integrated, coordinated, community-based continuum of care system to maintain the maximum independence of the elderly, and urged the protection of the rights of the institutionalized elderly.

—The seventh priority recommendation called for the transfer of general revenue funds to support the social security system should the Congress deem such action necessary.

—The eighth recommendation supported adequate rental assistance for low and moderate income elderly renters. It also supported the current 25 percent rent-to-income ratio for low income housing.

—The ninth priority recommendation called for expanded home health and in-home services based upon individual needs, more flexible eligibility requirements, emphasis on reimbursement at local rates, simplified administrative requirements, and tax incentives to families who provide care for dependent elderly.

—The tenth recommendation asserted that the highest priority be given to the use of macroeconomic policies to stop inflation.

A number of major themes were reflected in the priority recommendations of the Senate AARP/NRTA survey. The delegates to the 1981 White House Conference on Aging gave highest priorities to both maintenance of present social security benefits and expansion of health insurance benefits for older Americans. When the recommendations were consolidated by issue, those concerning social security far outrank any other. Although the individual social security recommendations differ in emphasis and even in specifics (such as whether to resort to the use of general revenues), the common theme that emerged from the survey was the necessity of maintaining current benefits.

Three of the top ten recommendations called for a comprehensive national health policy which would include provisions for long-term care services. The priority health recommendations also called for expanded home health and in-home services to be covered, and urged tax incentives for families who provide care for elderly persons.

These recommendations, along those concerning age discrimination and housing assistance were notable as well for the collective support they embodied for continuation of the Federal Government's role as the major supporter of age-related services. They also implied a continuation of support for categorical programs targeted to the special needs of the aged.

The recommendations selected as priorities from each of the 14 committees reflect several additional themes which emerged in the health care arena. The first of these, long-term care, emphasized the need to develop a comprehensive long-term care system to include an array of home-based services. The second theme concerned preventive care and health maintenance. Emphasized here was the need to expand medicare coverage to include such services. The final theme was that of protecting the rights of the institutionalized aged, specifically through such mechanisms as a patient bill of rights ombudsman services, and advocacy councils.

The priority recommendations reflected concern for those older people in greatest economic and social need. One such priority recommendation called for raising the level of SSI payment to the poverty line eliminating the assets test as an eligibility factor and removing the disincentive to work. This emphasis on the "at risk" population was also supported by recommendations from two other committees: A recommendation which urged continued Federal guarantees of basic entitlements and services necessary to preserve older people's independence; and a recommendation which called for rental assistance to enable low- and moderate-income elderly persons to live in decent housing at affordable rents.

Other recommendations which were given priority supported the continued involvement of the Federal Government in providing services, including the maintenance of age related categorical programs.

The recommendations also supported education and research on selected issues with particular emphasis upon the following areas: Education of the media and advertising communities to combat ageism; research into age-related diseases and concommitant training of physicians in geriatric medicine; greater expansion of research funds and effort into the specialzed needs of the minority aged; expansion of training opportunities within the aging network to assure a comprehensive management and delivery system; and, directed research on the efficacy of community-based alternative health services.

Chapter 25

THE WORLD ASSEMBLY ON AGING

OVERVIEW

The aging of populations is an international phenomenon.

All world regions are witnessing an increase in the absolute and relative size of their older population. The number of older persons in the world is expected to increase from 376 million in 1980 to 1,121 million in 2025 and the proportion of older persons in the total world population is expected to increase from 8.5 percent to 13.7 percent over that period. This will result in a world population in which one out of every seven individuals will be 60 years of age or older by the year 2025.

Although the aged have always been an important segment of every country's population, until recently they represented a relatively small proportion of their total population and were not the primary focus of social and economic resources. Historically, the attention of educators, scientists, and government officials in most countries has been directed toward early childhood and youth since the highest increase in population was in that age group. But this is no longer the case.

There is a substantial difference in the rate of aging in developed and developing countries. The majority of industrialized nations have already reached a high percentage of elderly in their populations, while the impact of the increase in the older population has not yet been dramatic in the developing countries. Accordingly, little attention had been focused heretofore in developing countries on the need to address aging issues. This factor, combined with limited resources available to these countries, makes it particularly important that planning take place now for the future.

The aging of world populations will have a strong impact on social and economic development with implications for production, consumption and savings, employment, investment, migration, and rural development.

The effects of the aging process in the major regions of the world are numerous and varied and include the following: The disruption of family patterns and the corresponding transfer of responsibility for the elderly to the government; varying patterns of demographic transition resulting in the rise of urban centers and the accompanying environmental hazards such as pollution and crime; rural de-

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NOTE.—Unless otherwise stated, data from this section is taken from the United Nations introductory document: Demographic Considerations, Report of the Secretary General, World Assembly on Aging, August 1982.

ADDITIONAL NOTE.—The United Nations uses those 60 years of age and over to define an aging population.

velopment which brings a corresponding need for education regarding new technologies; and longer life spans resulting in chronic illness and disabilities requiring sophisticated, expensive health and social service delivery systems.

A population's aging has serious implications with regard to social and economic development. In many of the regions, societies which have been characterized by rural-agricultural traditional social systems and economies are being transformed into less traditional societies and economic systems characterized by urbanization, agrobusiness, industrialization and an increasing tertiary services sector. Other regions, which have been characterized by highly industrialized economies, are now faced with the challenges of a more vigorous aging population who bring greater expectations, increased capacities, skills and personal resources to the societies of which they are a part, and large populations of frail and vulnerable populations who require increased resource allocations and new forms of service organization and delivery systems.

A. THE AGING OF WORLD POPULATIONS: A DEMOGRAPHIC OVERVIEW

The increase in the number of aging persons in the world reflects, in part, a surge in the world's entire population. By United Nations' estimates, the number of people in the world will triple over the 75-year span from 1950 to 2025. However, the 60-plus population is expected to increase five times over that same period (table 1 and chart 1). The most spectacular demographic change is projected to occur among people 80 years of age or older. This group is expected to increase by more than seven times from 1950 to 2025 (table 1 and chart 1).

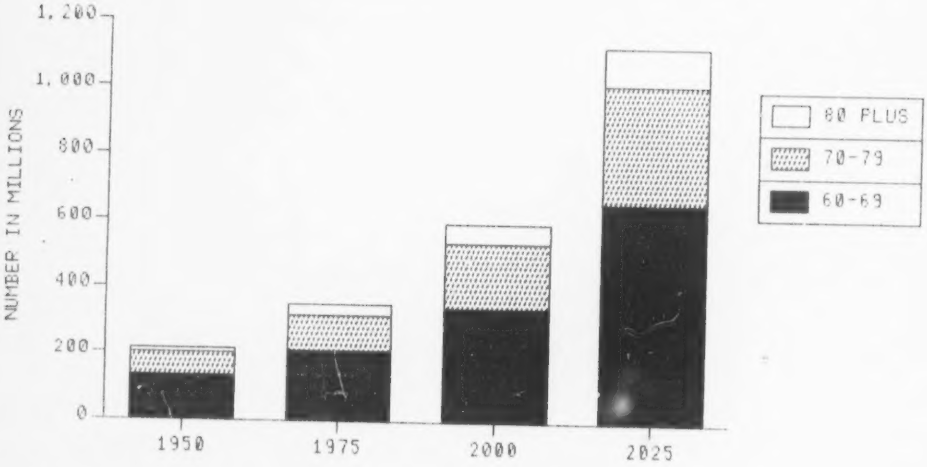
TABLE 1.—NUMBER AND PERCENTAGE OF POPULATION AGED 60 YEARS AND OVER, OF THE WORLD, AND OF ITS MORE DEVELOPED AND LESS DEVELOPED REGIONS, 1950–2025

Area and age group	1950	1975	2000	2025
	A. Number (Millions)			
World:				
60 years and over	214	346	590	1,121
60 to 69	133	208	338	656
70 to 79	65	106	193	354
80+	15	32	60	111
Developed regions:				
60 years and over	95	166	230	315
60 to 69	56	93	119	162
70 to 79	31	53	81	109
80+	8	19	30	44
Developing regions:				
60 years and over	119	180	360	806
60 to 69	78	115	219	494
70 to 79	35	53	111	245
80+	7	13	29	67
	B. Percentage of population 60 years of age and over			
World	100	100	100	100
Developed regions	44	48	39	28
Developing regions	56	52	61	72

Source: United Nations. Introductory Document: Demographic Consideratons, Report of the Secretary General. World Assembly on Aging, August 1982.

CHART 1

POPULATION AGED 60 AND OVER OF THE WORLD
1950-2025

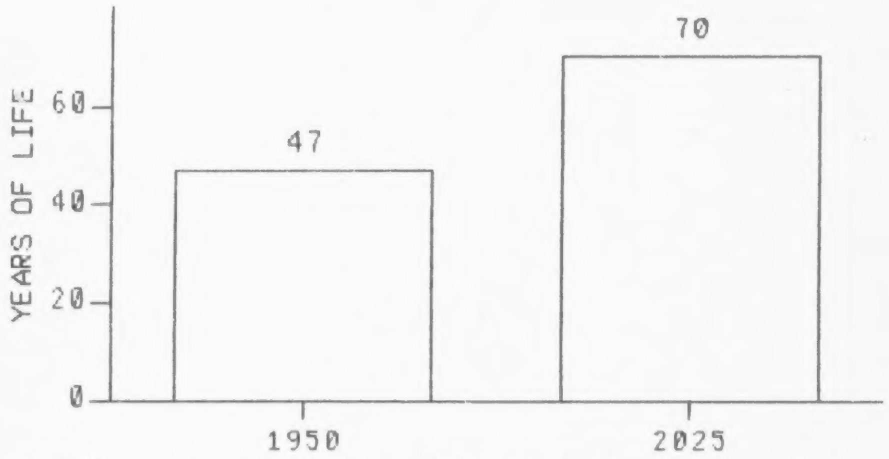


SOURCE: United Nations Introductory Document: Demographic Considerations, Report of the Secretary General, World Assembly on Aging; August, 1982

The global increase in the older population is primarily due to two factors: A slowing down of the world birth rate (after a period of high fertility creating large numbers in the cohort that will be elderly during the next century) and an increase in longevity due to improvements in health care and nutrition. Charts 2 and 3 show these trends: Average life expectancy from birth was 47 years in 1950. By 2025, life expectancy is expected to be 70 years. In 1950, there were 36 births for every 100 people in the world. By 2025, the U.N. estimates that there will be only half that number, 18 births per 100 individuals (charts 2 and 3).

CHART 2

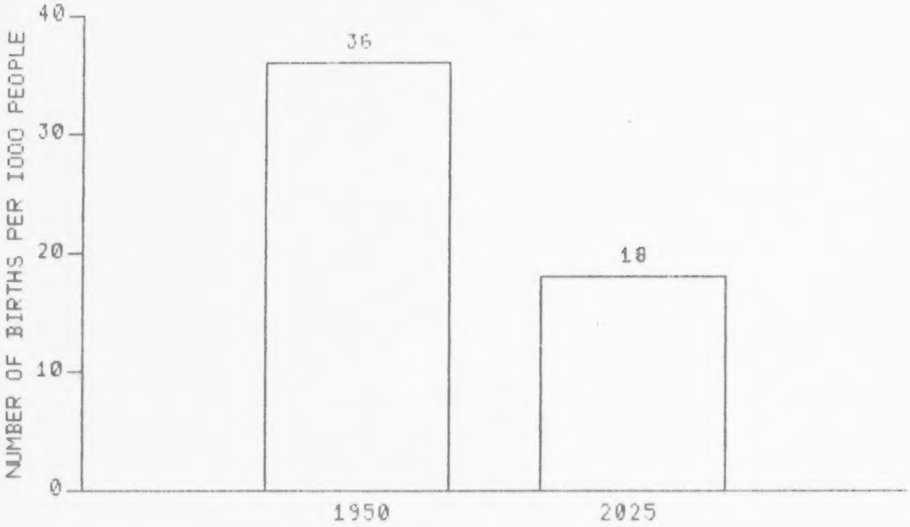
INCREASE IN LIFE EXPECTANCY FOR WORLD POPULATION
1950-2025



SOURCE: United Nations World Assembly on Aging
Vienna, 1982

CHART 3

WORLD BIRTH RATE - 1950-2025



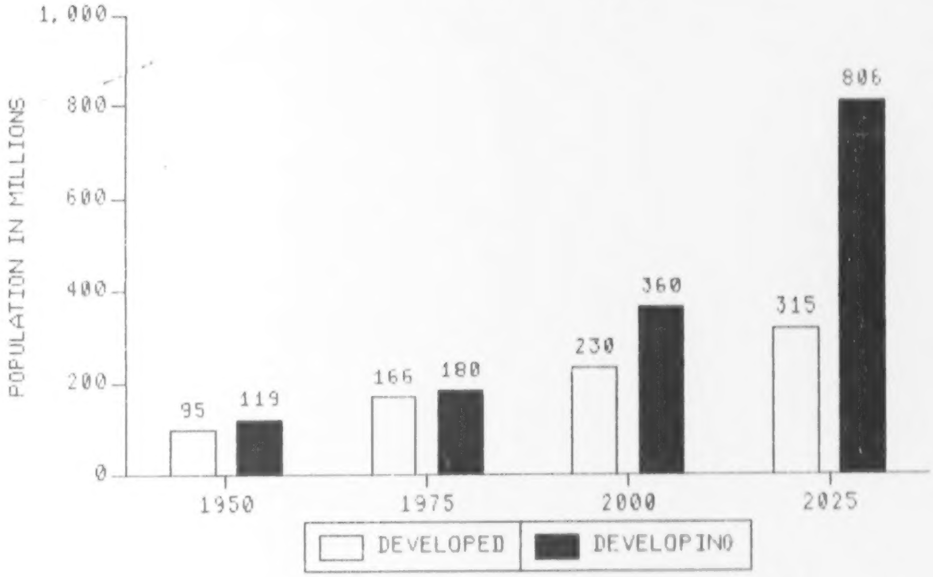
SOURCE: United Nations World Assembly on Aging, Vienna, 1982

1. Differences in Aging in Developed and Developing Countries

There is a substantial difference in the number and proportion of older persons in developed and developing countries. In fact, the 1980's mark a turning point in which the numbers of people 60 years and over are about evenly divided between developed and developing countries (48 and 52 percent), respectively (chart 4). By the year 2025, the 60-plus group is expected to equal 315 million in the developed regions and 806 million in the developing regions. This will mean that only 28 percent of the world's older persons will reside in industrialized countries, while 72 percent will reside in developing nations.

CHART 4

WORLD POPULATION 65 YEARS OF AGE AND OLDER FOR DEVELOPED AND DEVELOPING COUNTRIES 1950 - 2025

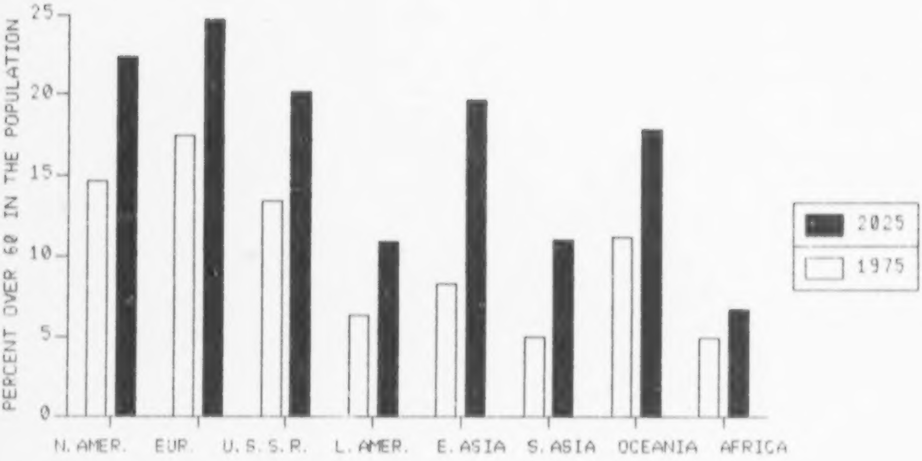


SOURCE: United Nations: Introductory Document: Demographic Considerations, Report of the Secretary General, World Assembly on Aging

While the next four decades are expected to see a dramatic increase in the overall proportion of aging people in the world population, projections suggest a substantial difference in the relative sizes of the elderly population in developed and developing countries. Chart 5 shows the proportion of older people in each of the world's regions in 1975 and U.N. projections for 2025. By these projections, all regions will experience proportional increases in their older population. Three regions—North America, Europe and the U.S.S.R.—will reach population distributions by the year 2025 where over 20 percent, or more than one out of five, of their citizens will be older. However, it is clear that some regions will lag behind. In 2025, less than 15 percent of the populations of Latin America and South Asia and under 7 percent of the population of Africa will be 60 or older, for example.

CHART 5

INCREASE IN OLDER POPULATION BY WORLD REGION
1975-2025



SOURCE: United Nations World Assembly on Aging, Vienna, 1982

2. Geographic Distribution of the Elderly

The world's elderly population is presently distributed unevenly with East Asia and Europe together comprising one-half of the world's older population (table 2 and map 1). It is expected that in the next 50 years the rates of growth of the number of aged will vary significantly by region, with North America and Europe experiencing low rates of growth in contrast to East and South Asia. This will result in a projected age distribution in 2025, where 57 percent of the elderly will be in Asia; 25 percent will be in Europe, North America, and the U.S.S.R.; and Latin America and Africa will have a significant share of the elderly, close to 20 percent (map 2).

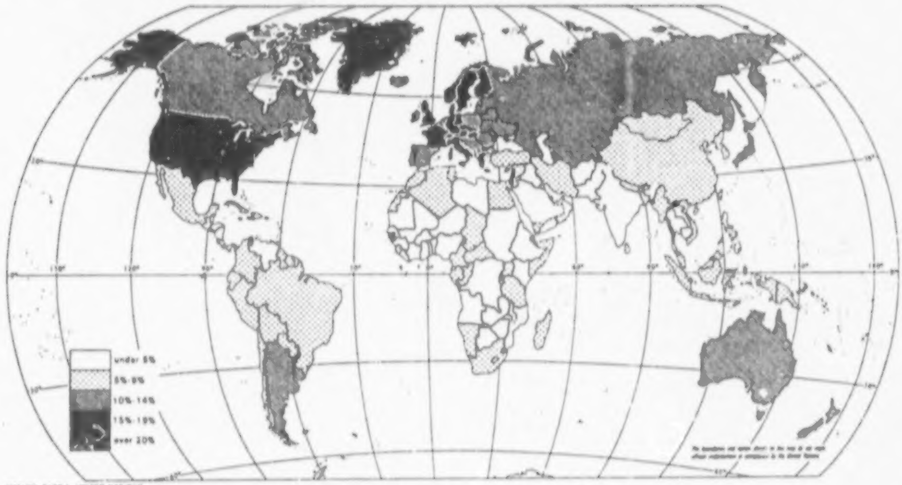
TABLE 2.—NUMBER AND PERCENTAGE DISTRIBUTION BY POPULATION 60 YEARS AND OVER, BY MAJOR REGION, FOR 1950, 1975, 2000, AND 2025

Region	Number (thousands)			Distribution (percent)		
	1975	2000	2025	1975	2000	2025
Africa	19,947	42,726	101,962	5.78	7.24	9.09
Latin America	20,153	40,990	93,317	5.83	6.94	8.32
Northern America	34,491	44,727	76,483	9.97	7.58	6.82
East Asia	90,233	168,849	335,292	26.09	28.60	29.89
South Asia	62,433	133,421	307,823	18.05	22.60	27.44
Europe	82,389	101,595	129,060	23.82	17.21	11.51
Oceania	2,359	3,700	6,412	0.67	0.62	0.57
U.S.S.R	33,870	54,352	71,309	9.79	9.21	6.36
World	345,875	590,360	1,121,658	100.00	100.00	100.00

Source: United Nations. Introductory Document: Demographic Consideration, Report of the Secretary General. World Assembly on Aging, August 1982.

MAP 1

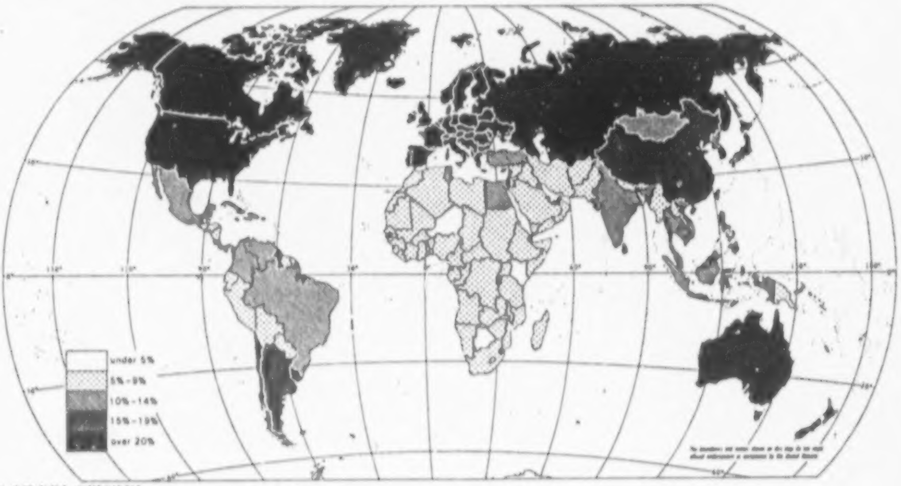
PROPORTION OF POPULATION AGED 60 YEARS AND OVER, 1975


under 5%
5%-9%
10%-14%
15%-19%
over 20%

MAP NO. 3170.1 UNITED NATIONS
MAY 1982

MAP 2

PROPORTION OF POPULATION AGED 60 YEARS AND OVER, 2025


under 5%
5%-9%
10%-14%
15%-19%
over 20%

MAP NO. 3170.2 UNITED NATIONS
MAY 1982

3. OLDER PERSONS AS A GROUP ARE AGING

The aging as a world population group are growing older. The 80-plus group is expected to grow from 1 percent to 14 percent of the world's elderly population between 1975 and 2025. And, by U.N. projections, the last two decades of this century will see an increase of 24 million persons 80 years of age and older with 60 percent, 14 million, residing in developing regions.

Because of the special problems related to the very old, it is important to note the countries with the projected greatest number of persons over 80 (table 3). Only four countries have over 1 million octogenarians in 1950, but in 2025, 17 countries are expected to belong to this category. The increases for the developing countries like Indonesia, Turkey or Nigeria or Mexico, are all spectacular.

TABLE 3.—COUNTRIES WITH A PROJECTED NUMBER OF PERSONS 80 YEARS OLD AND OVER OF MORE THAN 1 MILLION IN YEAR 2025

[Population in thousands]

Rank in year 2025 and country	1950	1975	2000	2025
1 China	2,338	5,254	13,434	25,748
2 India	1,965	2,355	3,628	10,577
3 U.S.S.R	1,341	3,545	6,765	10,057
4 United States	1,744	4,526	5,840	7,673
5 Japan	376	1,186	2,991	5,817
6 Brazil	135	555	1,583	3,439
7 Italy	506	1,085	1,903	2,687
8 Germany, Federal Republic of	497	1,283	1,666	2,437
9 Indonesia	192	280	853	2,136
10 United Kingdom	748	1,328	1,817	1,964
11 France	697	1,299	1,513	1,936
12 Mexico	86	299	712	1,671
13 Spain	291	601	1,132	1,621
14 Nigeria	62	120	383	1,252
15 Poland	183	401	723	1,139
16 Turkey	56	142	418	1,127
17 Pakistan	220	247	424	1,078
Number of countries with over 1 million persons 80 years old or older	4	9	11	17

Source: United Nations. Introductory Document: Demographic Considerations, Report of the Secretary General. World Assembly on Aging, August 1982.

4. SEX RATIOS

The ratio of older men to women in developing countries is nearly equal while in developed regions there are significantly fewer older men than older women (table 4.)

TABLE 4.—SEX RATIOS IN THE DEVELOPED AND DEVELOPING REGIONS (1975 AND 2025) [1]

Age group	1975		2025	
	Less developed regions	More developed regions	Less developed regions	More developed regions
60 to 69	96	74	94	78
70 to 79	88	62	86	75
80+	78	48	73	53

[1] Sex ratio is the number of men per 100 women of the same age group.

Source: United Nations. Introductory Document: Demographic Considerations, Report of the Secretary General. World Assembly on Aging, August 1982.

By the age of 80, there are twice as many women as men in industrialized regions, whereas in the less developed regions there are 7 men for 10 women of their age.

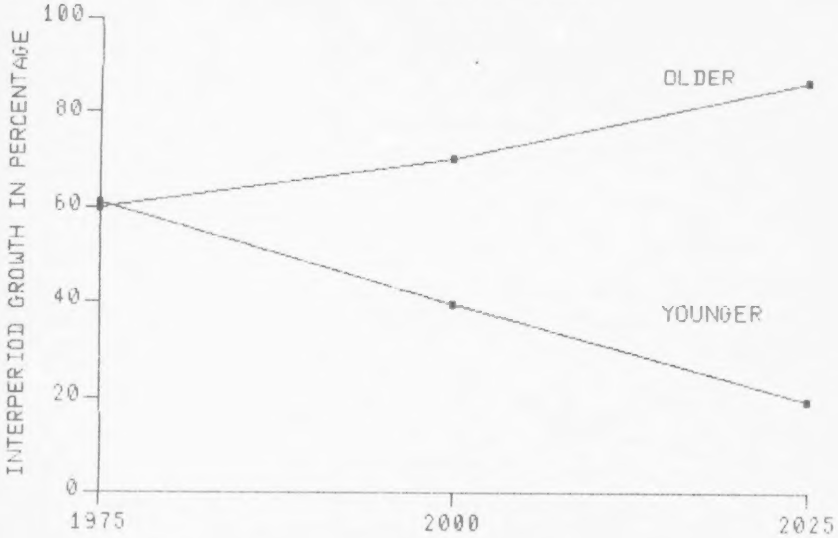
The ratio of males to females is expected to become slightly more balanced in the developed regions and less balanced in the developing regions by the year 2025. This trend has profound implications for individuals and family structures.

5. DIFFERENTIAL GROWTH IN AGE GROUPS

The projected differences in the rate of growth of older and young world populations between 2000 and 2025 is striking (chart 6).

CHART 6

PROJECTED DIFFERENTIAL GROWTH
OF OLDER AND YOUNG WORLD POPULATION GROUPS
1975-2025



SOURCE: United Nations World Assembly on Aging Introductory Document: Demographic Considerations, Item 5 of the Provisional Agenda, 1982

It has been argued that older persons and the young compete for the fruits of development or shares in socioeconomic programs. The projected world growth rates of old and young populations suggest that this could be a false assumption (table 5). Between 1950 and 2025, the proportion of 60-plus persons in the world population is expected to increase by 5.2 points (from 8.48 to 13.68 percent). During the same period, the working age group (15 to 59) will increase by nearly the same number of points, 4.53. Meanwhile, the proportion of young dependents (the 0 to 14 group) is expected to decline by 9.73 points. This trend could enable both the elderly and young to share a number of resources in a satisfactory manner for both.

TABLE 5.—DIFFERENTIAL GROWTH OF VARIOUS AGE GROUPS—Continued

[Percentage]

Age group	Proportion of age group in total population in 1950	Interperiod growth			Proportion of age group in total population in 2025
		1950-1975	1975-2000	2000-2025	
0 to 4	13.44	59.26	21.77	4.94	8.43
5 to 14	21.32	75.78	28.74	11.66	16.60
15 to 59	56.76	55.87	63.50	37.52	61.29
60+	8.48	61.65	70.59	89.99	13.68
Total	100.00	61.02	50.47	33.92	100.00

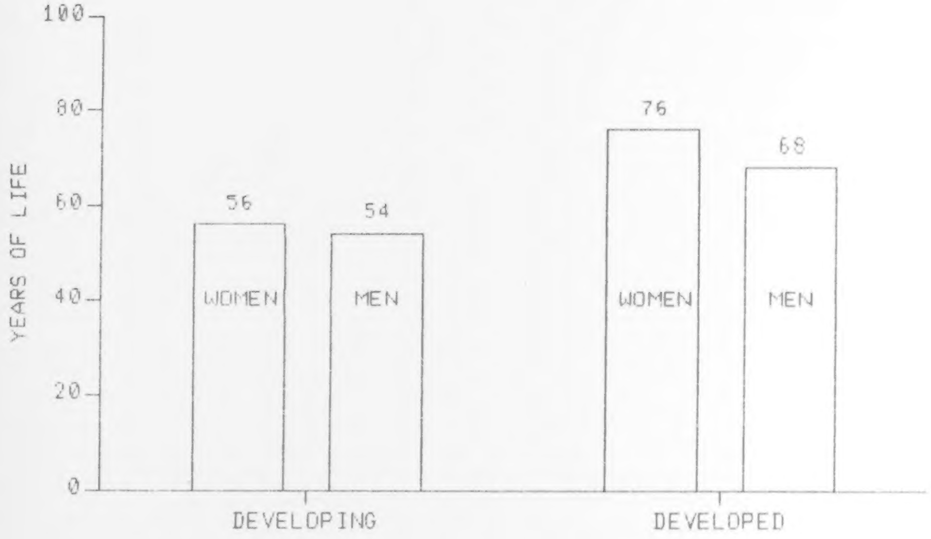
Source: United Nations. Introductory Document: Demographic Considerations, Report of the Secretary General. World Assembly on Aging, August 1982.

6. LIFE EXPECTANCY

Gains have been made throughout the world in the improvement of health and the reduction of death rates resulting in increased lifespans for the global population. However, differences remain between longevity rates in developed and developing countries (chart 7). The average lifespan of men and women in developing countries is 20 years less (54 and 56 years) than that of their counterparts in developed countries (68 and 76 years). The differences in longevity rates for men and women is less pronounced in developing countries (2 years) than in developed countries (8 years).

CHART 7

DIFFERENCES IN LIFE EXPECTANCY
BETWEEN MEN AND WOMEN IN DEVELOPING AND DEVELOPED COUNTRIES

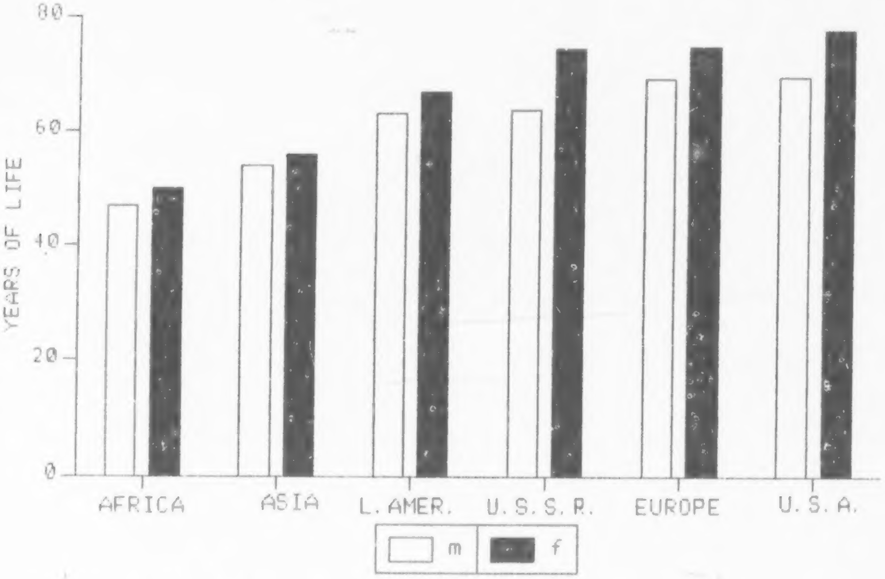


SOURCE: United Nations World Assembly on Aging, Vienna, 1982

Chart 8 portrays the current longevity rates for males and females in five world regions and the United States. Average life expectancy improves as countries become more industrialized, at the same time differences in the longevity of males versus females becomes more pronounced in industrialized countries. This trend suggests that as developing countries become more industrialized with greater numbers of elderly, there will be a large number of single women in their populations.

CHART 8

LIFE EXPECTANCY AT BIRTH IN 1980
FOR SELECTED WORLD REGIONS AND THE UNITED STATES



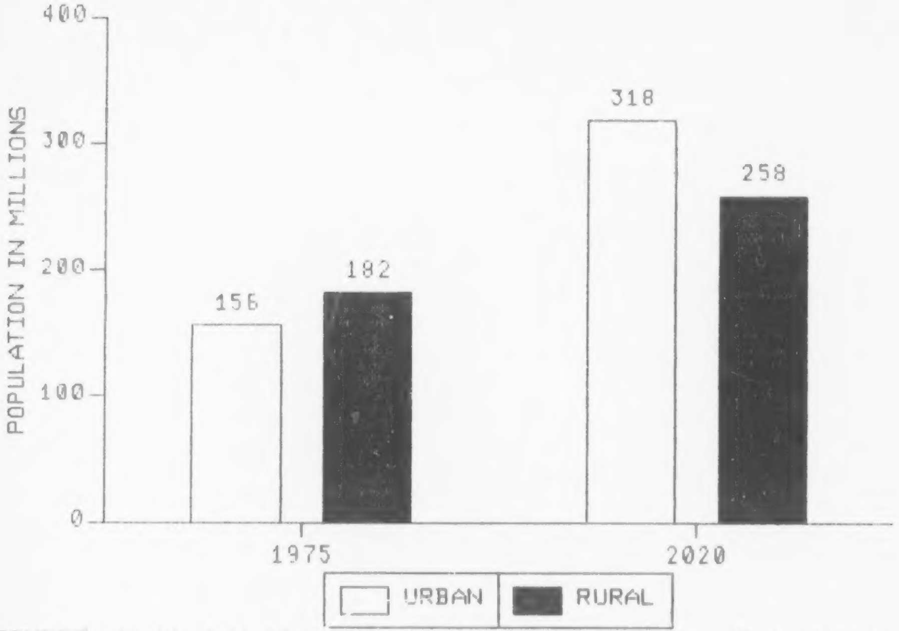
SOURCE: U.S. Bureau of the Census, Current Population Report
Series P-23, No. 79

7. Trends in Urban-Rural Distribution of the Elderly

At a world level, the profile of the average elderly person is expected to change from rural to urban by the year 2000 (chart 9). The degree of urbanization of the elderly is projected to increase from 46 percent in 1975 to 55 percent in 2000. Furthermore, elderly women are becoming more urbanized than the general population and this difference increases with the older age groups. The U.N. projects that 60 percent of 70-plus women will be living in urban areas by 2000.

CHART 9

PROJECTED OLDER POPULATION
FOR WORLD'S URBAN AND RURAL AREAS
1975-2000



SOURCE: United Nations World Assembly on Aging Introductory Document: Demographic Considerations, Item 5 of the Provisional Agenda, Table 6

B WORLD ASSEMBLY ON AGING

In recognition of the importance of the aging of the world population, a World Assembly on Aging was held under the auspices of the United Nations in Vienna, Austria, July 26 through August 6, 1982.

The World Assembly on Aging offered the nations of the world a unique opportunity to gather together to discuss the aging of society and the enormous impact this process is having and will continue to have on the social, economic, and political fabric of both the developed and the developing countries. Since 1972, the United Nations has been holding single-agenda item conferences which focus world attention on global problems. These single-topic conferences have provided an opportunity for experts and policymakers to meet in a 2-week global forum to discuss such topics as population, food, women and development, environment, water, employment, and new and renewable sources of energy. The basic objective of these meetings has been to focus the world's attention on a given subject and to try to stimulate action at the national and local levels on that issue.

The World Assembly on Aging is the 15th single-topic conference held by the U.N. It resulted in the endorsement of a plan of action by the U.N., with recommendations for national, regional, inter-regional and global action. Passage of the resolution calling for the WAA was preceded by many years of activities by the United Nations directed toward concerns of the elderly.

As early as 1949, a resolution was adopted by the U.N. General Assembly calling for a study of policies in varying countries with comprehensive old-age security programs, including old-age pensions, health care, and housing programs and the impact of such measures on the standard of living of the aged. The report of this study was the first U.N. attempt to gather information on the aged on a worldwide basis.

It was not until 1969 that the first major speech on the problems of the elderly was given in the plenary session of the General Assembly by Ambassador Pardo of Malta. In that same year, the Secretary General issued a preliminary report which stressed that policies and programs for the elderly should be part of the overall economic and social planning of a country, and emphasized the importance of coordinating studies and programs on aging within the U.N. structure. Malta also initiated a resolution in the General Assembly in 1971 calling for the investigation of the aged's socioeconomic and cultural role and status in nations of different levels of development. A report was issued in 1973 containing guidelines for national policies and international action related to the needs of the elderly. This report stated that aging may be one of the crucial social policy questions in the later third of the 20th century. It prompted a U.N. resolution requesting aging organizations to step up their activities.

Beginning in 1972, in the U.S. Congress, Senator Frank Church, chairman of the Senate Special Committee on Aging, and Congressman Claude Pepper, chairman of the House of Representatives Select Committee on Aging were responsible for pushing similar resolutions through the House and Senate asking the President to instruct the U.S. delegation to the U.N. to work with other delegations in order to launch a World Assembly on Aging. This proposal was conveyed to the U.N. through the U.S. delegation. Finally, on December 14, 1978, the U.N. General Assembly unanimously adopted the U.S. resolution calling on the U.N. to organize a World Assembly on the Elderly (the name of which was later changed to the World Assembly on Aging); to establish a voluntary fund for the World Assembly; to invite member States to establish national committees for the World Assembly and to conduct preparatory activities at the national level; and to appoint a Secretary-General for the World Assembly on Aging.

An amendment to the International Development and Food Assistance Act of 1978 (Public Law 95-424) authorized the United States to contribute 25 percent, or $1 million, whichever was lower, of the cost of a World Assembly on Aging. In addition, the United States contributed $650,000 to the WAA voluntary fund. Another major contribution of the United States came through the appointment of the former General Secretary of the International Federation on Ageing William Kerrigan, as Secretary-General to the WAA on May 20, 1980. Mr. Kerrigan's appointment represented the first time in U.N. history that an American served as the Secretary-General of a major U.N. conference.

In 1980, a resolution was adopted by the General Assembly accepting the proposals of Secretary-General Kerrigan and establishing an advisory committee to advise him on activities concerning the World Assembly.

A program for the WAA was adopted in 1980 with its purposes described as follows:

—To focus the attention of governments on the various issues of aging in designing policies and programs for economic and social development in both developed and developing countries.

—To provide an international forum for an exchange of views among governments on the ways and means of dealing with issues of the aging, including the machinery required for administrative and legislative actions.

—To identify aspects of various issues and consider methods to meet the need for action at the national, regional and international level and to consider, in particular, how countries can, through increased international cooperation, derive benefit from the knowledge and experience already acquired regarding the various issues of the aging; and

—To focus attention on and encourage wider participation in and support for present and future activities and programs of United Nations organizations and other international organizations related to aging and to give them guidelines and directions.

1. Preconference Preparations

(A) ADVISORY COMMITTEE

The U.N. Secretariat engaged in the most comprehensive preparations for a world conference that had ever been undertaken in the U.N.'s history. A 23-nation adivsory committee was established to insure that the preparations for the World Assembly was under way by early 1981, and to advise the Secretary General on all matters concerning the World Assembly. The advisory committee recommended that the work of the Assembly be carried on through three sessions meeting simultaneously—a plenary session and two committees which would consider special aspects of the problems of aging.

The first meeting of the advisory committee took place in Vienna, Austria, from August 17 through 21, 1981. The main task of the first meeting was to formulate the framework for an international plan of action on aging to be adopted by the WAA. In formulating the framework, the committee drew up a series of principles and objectives which could be included in the plan. Included were suggestions that the aging should be encouraged and enabled to live and function as normally as possible within their own environment and should be encouraged and assisted to determine their own modes of living. According to the framework, they should also be encouraged and enabled to influence and participate in decisions concerning their own lives and welfare and, through meaningful activity, should be motivated to play a creative role in the community. Further, the committee advised that the elderly be considered a valuable and valued resource, and assured of social, economic, and personal security.

The second meeting of the advisory committee took place in New York City, N.Y., on February 16 through 22, 1982. An agenda and rules of procedure for the the WAA were adopted. It also reviewed and amended the text of the draft plan of action put together by the U.N. Secretariat.

The third and final meeting of the advisory committee was held on May 3 through 7, 1982, in Vienna, Austria, where the committee again reviewed the draft international plan of action and approved its submission to the WAA.

(B) REGIONAL TECHNICAL MEETINGS

In addition to the meetings of the advisory committee, the U.N. Secretariat organized six regional technical meetings of experts on aging, in preparation for the WAA. Countries from the six major regions of the world convened to discuss issues of importance to aging populations in general and individual nations in particular. Among the major regions participating in these meetings were the Middle East and Mediterranean region (Valletta, Malta, June 3 to 6, 1980), the Latin American region (San Jose, Costa Rica, December 2 to 5, 1980), the Asian and Pacific region (Bangkok, Thailand, January 27 to 30, 1981), the African region (Laos, Nigeria, February 24 to 27, 1981), the European region (Frankfort/Main, Germany, June 10 to 12, 1981), and the North American (Washington, D.C., U.S.A., June 15 to 19, 1981). Although the Socialist countries of Eastern Europe did not conduct a technical meeting, a report on the status and condition of the elderly in these countries was prepared by experts from this region as a contribution to the WAA.

The first five meetings were sponsored by the governments of the countries in which they were held in cooperation with the U.N. Center for Social Development and Humanitarian Affairs, with the exception of the North American technical meeting, which was jointly sponsored by the U.S. Department of State and the National Council on Aging. The purpose of these meetings was to assemble a group of experts to assess global and subregional concerns of the aging and to prepare a report to be submitted to special intergovernmental meeting of the five U.N. regional economic commissions. This new and innovative idea was tremendously successful, according to the U.N. Secretariat.

(C) U.N. REGIONAL ECONOMIC COMMISSION MEETINGS

The special meetings of the U.N. Regional Economic Commission were vital to the success of the WAA because they raised the level of perception of the problems of aging by bringing governmental experts together for the first time, on a regional basis, and providing them with an opportunity to share their problems and experiences with representatives from neighboring countries. These meetings enabled national delegates to realize that their village, community or national situations were not unique. A friendly, understanding and uncritical atmosphere was gradually created, making it easier to exchange ideas and to learn from one another.

Growing awareness of the problems of aging by the developing world was evidenced in the three preparatory meetings held in Asia—the Economic and Social Commission for Asia and the Pacific Preparatory Meeting (Manila, October 19 to 23, 1981); Africa—the Economic Commission for Africa Preparatory Meeting (Addis Ababa, March 1 to 5, 1982); and Latin America—the Economic Commission for Latin America Preparatory Meeting (San Jose, Costa Rica, March 8 to 12, (1982).

The Economic and Social Commission for Asia and the Pacific Preparatory meeting produced a plan of action for the region that contained 34 recommendations directed toward national action. The following main points surfaced at the ESCAP meeting:

(1) Eighty percent of the population is rural and has no social security coverage and no pension schemes.

(2) The family structure in many villages is crumbling because of migration to the cities.

(3) Institutionalization of the aging should be considered only as a last resort.

(4) The family is the basic resource for the care of the aging and should be strengthened through the provision of external services—by nongovernmental organizations and by the government, where possible.

The draft program of action adopted by the conferees of the Economic Commission for Latin America took note of urbanization and the growth of the population over 60 years of age. It stressed the economic problems facing the aging and called for a long-term view of the problems. In addition the plan:

(1) Urged the strengthening of the role of the family as the primary social unit.

(2) Agreed that institutionalization of the aging was the last resort.

(3) Recommended that the aging actively participate in formulating policies affecting themselves.

(4) Supported the need for more education and training, especially for older farmers.

(5) Acknowledged the need for more active involvement of nongovernmental organizations in providing social services to the family; and

(6) Recommended the elimination of age restrictions on employment.

The delegates of the Economic Commission for Africa, while noting potential problems, agreed that aging was not among Africa's major problems today, since the percentage of persons 60 and over would remain small for some time. However, they noted that this segment of the population was growing rapidly and should be taken into consideration in development planning.

It was remarkable to see how closely the views from Asia, Latin America, and Africa reflected each other's. It was also encouraging to realize that a recognition of the problems the world faces regarding the aging is becoming more widespread.

The Economic Commission for Europe, whose members include countries from Eastern Europe, Western Europe, and North America, held their preparatory meeting in Vienna, April 26 to 30, 1982. It is in Europe that the "aging of populations" is most significant.

The participants noted that the aging of populations will slow in the countries already greatly affected, but there will be a substantial rise in Eastern and Southern Europe. The European countries as a whole have already enacted programs for social security, geriatric medicine, and social welfare, but the 33 governments present at the meeting nonetheless developed a regional plan of action with 62 recommendations. Many of their concerns were similar to those of the developing world. Of particular interest was that delegates from a number of Western European countries acknowledged that many of the approaches they were following today with regard to the aging were not working satisfactorily. Many western countries were currently reviewing their policies and plans because costs were too high and they were experiencing financial difficulties. In other words, no country felt that it had all the answers and all countries can learn from one another.

(D) NONGOVERNMENTAL ORGANIZATION MEETINGS

Along with all the government-oriented meetings, a forum of nongovernmental organizations was held in Vienna, Austria, from March 20 to April 2, 1982. In the noncommunist, developed world, the nongovernmental organizations (NGO's) play a key role in developing national, local and international programs for the aging. The NGO Forum on Aging was attended by over 350 people from 43 countries representing 159 organizations. For the first time in the history of these single-agenda item global conferences, NGO's gathered before the U.N. meeting to develop their own substantive action plan which was then submitted to the U.N. Secretariat and presented to the World Assembly itself as a formal NGO document. There was a substantial number of NGO's represented at the WAA itself, as official observers and unofficial lobbyists, with 22 speaking in the plenary session in July.

In the United States, NGO's are particularly important. There are approximately 40 organizations for the aging throughout the country, and their total membership is about 18 million. NGO's geared toward the aged have a dedicated and vigorous membership, and constitute a real political force that the Congress and the administration must bear in mind when formulating policies and programs.

U.S. preparations for the World Assembly were made in close consultation with the NGO community. An NGO advisory committee to the U.S. coordinator for the WAA was established and met often. This committee, chaired by the President of the National Council on Aging, Arthur S. Flemming, also met with Canada and the U.N. Secretariat, at the State Department in June 1981 in preparation for the WAA.

2. VIENNA MEETING

The World Assembly on Aging convened at the Hofburg Palace in Vienna, Austria on July 26, 1982, with an attendance of 2,000 delegates from over 125 countries. Opening remarks were delivered by Jean Rupert, U.N. Director General for Development and International Economic Cooperation and the President of Austria, Rudolf Kirchschlager. Dr. Hertha Firnberg, Austrian Minister for

Science and Research, was elected president of the WAA. During the plenary session, 132 speeches were given by heads of delegations, representatives from U.N. specialized agencies, and nongovernmental organizations.

(A) U.S. DELEGATION

The U.S. delegation, led by Secretary of Health and Human Services, Richard S. Schweiker, played a prominent role throughout the World Assembly on Aging. Other members of the U.S. delegation included:

Alternate Representatives

The Honorable Dorcas R. Hardy, Assistant Secretary for Human Development Services, Department of Health and Human Services.

The Honorable Virginia Knauer, Special Assistant to the President, the White House.

The Honorable C. Everett Koop, M.D., Surgeon General of the United States, Department of Health and Human Services.

The Honorable John W. McDonald, Jr., Ambassador, Coordinator for World Assembly on Aging, Department of State.

The Honorable Lennie-Marie Tolliver, M.D., U.S. Commissioner on Aging, Department of Health and Human Services.

Senior Advisers

The Honorable Adelaide Attard, Chairman, Federal Council on the Aging, Department of Health and Human Services.

The Honorable Roger Kirk, Ambassador, U.S. Permanent Representative to UNIDO.

Congressional Advisers

The Honorable Mario Biaggi, U.S. House of Representatives.

The Honorable Robert K. Dornan, U.S. House of Representatives.

The Honorable Claude Pepper, U.S. House of Representatives.

Congressional Staff Advisers

Robert B. Blancato, Select Committee on Aging, U.S. House of Representatives.

Charles Edwards, staff director, Select Committee on Aging, U.S. House of Representatives.

John C. Rother, staff director, Special Committee on Aging, U.S. Senate.

Advisers

Jean Bergaust, Department of Health and Human Services

Carol J. Fraser, Special Assistant to the Assistant Secretary for Human Development, Department of Health and Human Services.

Brewster R. Hemenway, Alternate U.S. Representative to UNIDO, Vienna.

David Hohman, Office of International Affairs, Department of Health and Human Services.

Ellen Sehgal, Office of Research and Development, Department of Labor.

Private Sector Advisers

Constance Armitage, Chairman, 1981 White House Conference on Aging, Inam, S.C.

Morrison H. Beach, West Hartford, Conn.

Cyril F. Brickfield, executive director, American Association of Retired Persons, Washington, D.C.

Eleanor Cain, National Association of State Units on Aging, Washington, D.C.

Curt Clinkscales, National Alliance of Senior Citizens, Falls Church, Va.

George Telisman, president, National Association of Area Agencies on Aging, Washington, D.C.

(B) PLAN OF ACTION

The charge to the delegates to develop an "international plan of action" on aging, which would provide member nations and U.N. agencies with guidelines for formulating policies for the elderly, was successfully carried out with relatively few intrusions of politics and ideology that can characterize U.N. meetings. Dr. Anthony H. B. DeBono, of Malta, chaired the main committee, in which the plan of action was developed. As expected, there were allusions to outside issues. For example, developing nations succeeded in adding language to the plan calling for the establishment of a "new international economic order," without which, they claimed, countries would not be able to meet the challenges posed by their aging populations. Similarly, the majority of nations present emphasized the need to halt the arms race in order to release resources for economic and social development.

Delegates spent most of the 2-week conference discussing two basic issues: (1) The impact of aging populations on socioeconomic development; and (2) the impact of development on the aging. Many developed countries are confronted with the paradox that socioeconomic development, which was sought in order to improve the well-being of all, has led to a marginalization or a lowering of the status of the aged in society. In developing countries, the rapid aging of populations, which has been made possible through socioeconomic development, has exceeded the capacity of these societies to respond to the challenges posed by this age group. Many of these nations are now experiencing some breakdown of the extended family structure, the concentration of the elderly in rural areas, and the unequal distribution of very limited health and social services. Emphasized throughout the plan of action is the idea of keeping the elderly integrated in society and, wherever possible, incorporating consideration for the elderly within national planning for family well-being or general development. Specific recommendations included in the final plan of action are as follows:

Health and Nutrition

Closer coordination between social welfare and health care services at the national and community levels was seen as essential to reducing rapidly increasing costs of such services. The plan of action noted that those who give the most direct care to the elderly are often the least trained for that purpose. It proposed training for new orientation and skills among the elderly themselves, their families, and local health and social welfare workers. A broad range of ambulatory services including day care centers, outpatient clinics, day hospitals, medical and nursing care, and domestic services was considered essential.

A large number of recommendations centered on the subject of nutrition, including a call for (a) public education in correct nutrition and eating habits; (b) provision of health and dental services for early detection of malnutrition and improvement of mastication; and studies of the nutritional status of the elderly at the community level with steps to correct unsatisfactory conditions.

Income Security and Employment

Recognizing the differences between developed and developing nations, the plan states that governments should take action to ensure all older persons an appropriate minimum income, creating or improving universal social security schemes. In addition, "Where this is not feasible, other approaches, including payment of benefits in-kind or direct assistance to families and local cooperative institutions, should be tried." The plan of action stressed that "social security systems should make it possible for women as well as men to acquire their own rights, taking into account periods devoted to parental and family duties as well as time in paid employment."

Since the rights to work and to retire are related to income security, governments should therefore take steps to assure that older workers can continue to work under satisfactory conditions; discrimination in the labor market should be eliminated; and older workers should have equal access to orientation, training, and placement facilities and services.

Social Welfare

Community based services should maximize the social functioning of the aging. Special attention should be paid to the needs of elderly migrants and rural elderly. Developing nations are encouraged to keep their elderly in their traditional role of respect, consideration, status and authority. Volunteerism, mutual-self help, and part-time work should be promoted by governments. Further, institutionalization should be accompanied by an assurance of quality of care, similar to that found in normal conditions in the community.

Housing and Environment

National housing goals should include (a) aiding the aged to life in their own homes as long as possible; (b) creating new housing arrangements which "suit the status and degree of self-sufficiency of the aged themselves together with local tradition and custom"; (c) coordination of housing with community services; and (d) developing arrangements to allow the aged to move about without danger from traffic hazards.

The Family

To support and strengthen the family, governments "should promote social policies encouraging the maintenance of family solidarity among generations, with all members of the family participating. The role and contribution of the nongovernmental organizations in strengthening the family as a unit should be stressed at all levels." The plan adds that social services should be established to support the whole family—especially low-income families—who wish to keep their elderly members at home.

Education

Education is declared a basic human right and "must be made available without discrimination against the elderly." The plan of action suggests adapting educational methods to the capacities of the aged, and urges consideration of the idea of university education for the elderly. Courses should be designed to use the elderly as the "teachers and transmitters of knowledge, cultural, and spiritual values." Continuous adult education could expand to include preparation for aging and creative use of time.

In addition, mass media should undertake a coordinated effort to emphasize the positive aspects of aging. National governments and international organizations should support the U.N. Educational, Scientific, and Cultural Organization's (UNESCO) concept of lifelong education, since "informal community-based and recreation-oriented programs for the aging should be promoted in order to help them develop a sense of self-reliance and community responsibility."

ADOPTION OF PLAN OF ACTION

It is important to remember that the delegates were trying to design a global document that would be acceptable to all nations but which would be detailed enough to provide ideas and recommendations which could be carried out at the national level. As a nonmandatory document, the plan of action's strength lies in the unanimity of agreement reached and the personal dedication of the participants to take these recommendations home and try to implement as many of them as possible in their own national surroundings.

On the evening of August 5, 1982, the main committee of the World Assembly accepted the plan of action as a whole, without a roll-call vote, and forwarded the text to the plenary. Then, on August 6, without reservation, the plan of action was adopted by the plenary session.

According to U.N. rules, all recommendations arising out of a global conference under U.N. auspices must be referred to the General Assembly for final approval before they are considered official. The World Assembly on Aging plan of action was referred to the social committee of the 37th General Assembly, in New York City, N.Y., from September to December 1982. Results of the Vienna conference were discussed between October 18 and October 29. On December 3, 1982, the plan of action was adopted unanimously by the plenary of the U.N. General Assembly.

3. IMPLEMENTATION

(A) ROLE OF THE UNITED NATIONS AND INDIVIDUAL GOVERNMENTS

The U.N. unit responsible for coordinating U.N. economic and social activities, the Economic and Social Council (ECOSOC), works under the authority of the General Assembly. ECOSOC, which consists of 54 members, generally holds two month-long sessions annually—one in New York and one in Geneva, Switzerland. A subsidiary body of ECOSOC, the Commission for Social Development, is the intergovernmental body which became responsible, as a result of the adoption of the WAA plan of action, for reviewing the implementation of the plan. Every 4 years, the Commission will review the plan and make proposals to update it. Its findings will then be forwarded by ECOSOC to the General Assembly.

U.N. specialized agencies are also responding to the plan of action. In particular, the U.N. Fund for Population Activities will be relating aging issues to its International Conference on Population in 1984. It also plans to make special reference to intergenerational matters during the International Youth Year in 1985. The World Health Organization seems more dedicated than ever to the inclusion of the elderly in its ambitious goal of "health for all by the year 2000." WHO's global program on care of the aging will continue to expand in the next 3 years. In short, the plan of action should be effective in influencing those U.N. agencies that need prodding to include, or expand, aging programs.

As discussed in the plan of action, each country should devote more attention to aging in its own national strategy, developing a "clear commitment" at all levels of government to implement targets and priorities. Special attention should be paid "to improving the lot of elderly women, who are often at a severe disadvantage." In addition, full use should be made of nongovernmental organizations and intergovernmental organizations, with national planning, programing, and coordinating bodies put in place. The action plan depends on each nation's political process, as well as international pressures. It is up to the citizens in each country to become aware of, and lobby for, the principles and recommendations of the plan of action.

(B) U.N. VOLUNTARY TRUST FUND FOR THE WORLD ASSEMBLY ON AGING

Most important in the implementation of the World Assembly on Aging's recommendations is the issue of financial support. The aforementioned 1980 resolution which called for the World Assembly on Aging included a provision which was clearly intended to provide funds to the Secretariat to help prepare for the conference. In 1981, the U.N. General Assembly requested the Secretary General to use this trust fund to encourage further interest in the field of aging among developing countries, within the context of the World Assembly.

A conflict arose when the United States, France, and the developing countries wanted the trust fund to be converted into a long-term voluntary fund designed to help older persons in the third world, but Sweden, U.S.S.R., Australia, Canada, and other Nordic countries wanted the fund to cease to exist when the WAA completed its work on August 6, 1982.

The United States viewed the continuation of the trust fund as the most important practical result coming out of the World Assembly and lobbied intensively to make that happen. Finally, it was decided that the fund would be continued in order to meet the rapidly increasing needs of the aging in the developing countries, that the payment of voluntary public and private contributions should be encouraged and that the fund should be administered by the Center for Social Development and Humanitarian Affairs.

Although it has been in existence for a short time, the trust fund has a remarkably broad base of political support. Over 30 countries from all regions of the world have contributed more than $1.5 million to the fund, $650,000 of that amount came from the United States alone.

4. Conclusion

According to Secretary-General William Kerrigan, one of the main achievements of the World Assembly on Aging will have been the "consciousness-raising" that has resulted, particularly among developing countries, about the societal implications of their aging populations and the necessity of responding to older persons' needs. The World Assembly on Aging presented the culmination of this process and the WAA may already have succeeded in this effort before national delegations even formally met in Vienna.

The many regional meetings preceding the World Assembly and the request that member countries produce national reports on the situation of the elderly in their nations served a valuable educational purpose for numerous policymakers who were exposed to the subject of aging for the first time. Data now exists about the aging in some parts of the world where heretofore the subject had never been formally addressed.

Similarly, the many specialized U.N. agencies were requested to produce reports on what they had been doing or poposed to do for the aging. In some cases, agencies began to focus their energies on this target audience for the first time. A number of the U.N. agencies produced very valuable documentation on subjects such as older worker problems around the world, educational opportunities for the elderly and so on. Many of these topics had not been addressed comprehensively before, especially when it came to covering the situation in developing countries. As a consequence, the WAA has succeeded in broadening the knowledge base about aging considerably.

Through the adoption of the international plan of action, the approval of the continuation of the U.N. voluntary trust fund for the WAA, and a strengthening of the focus point on aging within the U.N., the WAA helped fortify the capacities of countries to deal with their aging problems and "to promote an appropriate international response to the issues of aging."

Note.—The interested reader will find a more detailed account, including reprints of original U.N. documents, of the World Assembly on Aging in the report submitted by the U.S. Department of State in volume 2 of Developments in Aging: 1982.

5. BIBLIOGRAPHY

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Selby, Philip, and Schechter, Mal. Aging 2000: A Challenge for Society, MTP Press Limited, Lancaster, England, 1982.

U.N. Introductory Document: Demographic Considerations, Report of the Secretary General, United Nations, New York, March 1982.

U.S. National Report on Aging for the United Nations Assembly on Aging, U.S. Department of State, U.S. Government Printing Office, Washington, D.C., June 1982.

SUPPLEMENTAL MATERIAL

Supplement 1

MAJOR LEGISLATION PASSED IN SECOND SESSION OF 97TH CONGRESS AFFECTING OLDER AMERICANS

THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

November 13, 1981	H.R. 4961, introduced as "Miscellaneous Revenue Act of 1981," in House, by Representative Fortney Stark.
December 14, 1981	Reported by House Ways and Means Committee, Report No. 97-404.
December 15, 1981	Passed House (amended).
July 12, 1982	Reported by Senate Finance Committee, Report No. 97-494, amended title to "Tax Equity and Fiscal Responsibility Act of 1982."
July 23, 1982	Passed Senate (amended).
July 27, 1982	House Ways and Means Committee reconsidered measure resulting from Senate passage.
August 17, 1982	Conference Report 97-760, filed in House.
August 18, 1982	Conference Report 97-530, filed in Senate.
August 19, 1982	House agreed to conference report.
August 19, 1982	Senate agreed to conference report.
September 3, 1982	Signed by President, Public Law 97-248.

THE OMNIBUS BUDGET RECONCILIATION ACT OF 1982

July 26, 1982	S. 2774, introduced in Senate by Senator Pete Domenici.
July 26, 1982	Reported by Senate Budget Committee, Report No. 97-504.
August 5, 1982	Passed Senate
August 10, 1982	H.R. 6955, introduced in House by Representative Jim Jones.
August 10, 1982	Passed House
August 11, 1982	Senate struck all after the enacting clause and substituted the language of S. 2774 amended.
August 16, 1982	Conference Report 97-750, filed in House.
August 18, 1982	Conference Report 97-759, filed in House.
August 18, 1982	House agreed to conference report.
August 18, 1982	Senate agreed to conference report.
September 8, 1982	Signed by President, Public Law 97-253.

SUPPLEMENTAL APPROPRIATIONS ACT OF 1982
(TO EXPIRE SEPTEMBER 30, 1983)

July 27, 1982	H.R. 6863, introduced in House by Representative Jamie Whitten.
July 27, 1982	Reported by House Appropriations Committee, Report No. 97-673.
July 29, 1982	Passed House (amended).
August 3, 1982	Reported by Senate Appropriations Committee, Report No. 97-516.
August 11, 1982	Passed Senate (amended).
August 13, 1982	Conference Report 97-747 filed in House.
August 18, 1982	House agreed to conference report.
August 20, 1982	Senate agreed to conference report.
August 28, 1982	Vetoed by President.
September 9, 1982	Passed House over veto.
September 10, 1982	Passed Senate over veto.
September 10, 1982	Became Public Law 97-257.

CONTINUING APPROPRIATIONS RESOLUTION
(TO EXPIRE SEPTEMBER 30, 1983)

September 16, 1982	H.J. Res. 599, introduced in House by Representative Jamie Whitten.
September 16, 1982	Reported by House Appropriations Committee, Report No. 97-834.
September 22, 1982	Passed House.
September 23, 1982	Reported by Senate Appropriations Committee, Report No. 97-581.
September 29, 1982	Passed Senate (amended)
September 30, 1982	Conference Report 97-914 filed in House.
October 1, 1982	House agreed to conference report.
October 1, 1982	Senate agreed to conference report.
October 2, 1982	Signed by President, Public Law 97-276.
December 10, 1982	H.J. Res. 631, introduced in House by Representative Jamie Whitten.
December 10, 1982	Reported by House Appropriations Committee, Report No. 97-959.
December 14, 1982	Passed House (amended).
December 15, 1982	Reported by Senate Appropriations Committee without written report.
December 19, 1982	Passed Senate (amended).
December 20, 1982	Conference Report 97-980 filed in House.
December 20, 1982	Senate agreed to conference report.
December 20, 1982	House agreed to conference report.
December 21, 1982	Signed by President, Public Law 97-377.

Supplement 2

1982 HEARINGS BEFORE THE SENATE SPECIAL COMMITTEE ON AGING

ALTERNATIVE APPROACHES TO HOUSING OLDER AMERICANS, HARTFORD, CONN., FEBRUARY 1, 1982, HON. CHRISTOPHER J. DODD, PRESIDING

WITNESSES

Joseph E. Canale, K.S.G., commissioner, Department of Housing, State of Connecticut, Hartford, Conn.

Marin J. Shealy, commissioner, Department on Aging, State of Connecticut, Hartford, Conn.

Lisl Standen, delegate, 1981 White House Conference on Aging; representing the League of Women Voters, South Kent, Conn.

Arthur E. Higgins, president, New Samaritan Housing Corp., North Haven, Conn.

Dr. Marie L. Jaeger, delegate, 1981 White House Conference on Aging; representing Southwest Connecticut Coalition on Aging, Trumbull, Conn.

Marvin Kay, social worker and planner, Office of Housing and Social Services, West Hartford, Conn.

Lynn Freedman, planner, Community Council of the Capitol Region, Inc., Hartford, Conn.

Jonathan Frankel, director, Sheldon Oak Central, Inc., Hartford, Conn.

Peggy Chapin, regional planner, Southwestern Regional Planning Agency, Rowayton, Conn.

Otto Paparazzo, president, Otto Paparazzo Associates, Inc., Woodbury, Conn.

Patrick H. Hare, planning consultant, Washington, D.C.

Dwight H. Merriam, Esq., land use planner, Hartford, Conn.

Mildred V. Richards, realtor, Meriden, Conn.

Robert J. Nocera, vice president, the Banking Center, Waterbury, Conn.

Harold F. Heintz, manager of planning and program analysis, Connecticut Housing Finance Authority Hartford, Conn.

ISSUES RAISED AND TESTIMONY SUMMARY

Senator Christopher Dodd presided over this field hearing in Hartford, Conn. Older Americans have special housing needs exacerbated by their often limited, fixed incomes. Given today's tight housing market, these needs are rarely met.

Witnesses testified about both the demand for special housing arrangements for seniors in the community and the kinds of alternatives which might be explored. The availability of special housing for seniors in light of the administration's budget cuts and in turn the role the Federal Government might play in establishing alternative forms of housing was discussed. Representatives of a wide range of professional expertise, including consumers, social workers, planners, bankers, developers, realtors, and financiers documented the long waiting lists for special housing; urged the Federal Government to consider new ways to tie social services to elderly housing projects; discussed ideas for linking health care and meal services with specially designed housing projects for seniors; and outlined some of the financing and zoning problems which must be overcome before such new alternatives as accessory apartments can be used widely.

ENERGY AND THE AGED: THE WIDENING GAP, ERIE, PA., FEBRUARY 19, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Katherine Grygo, Erie, Pa.
Mildred I. Kline, Erie, Pa.
Merle E. Wood, coroner, Erie County, Pa.
Jack A. Frisch, Ph. D., executive director, Clearfield County Area Agency on Aging, Inc., Clearfield, Pa.
Victor S. Rutkoski, energy assistance program coordinator, Erie County Board of Assistance, Erie Pa.
R. Benjamin Wiley, executive director, Greater Erie County Community Action Committee, Erie, Pa.
Charles A. Wood, administrative assistant, department of public affairs, National Fuel Gas Distribution Co., Erie, Pa.; accompanied by William J. Hill, vice president of operations, Pennsylvania, and Ronald G. Butterson, administrative assistant, consumer business, Pennsylvania.

ISSUES RAISED AND TESTIMONY SUMMARY

Held in Erie, Pa., "Energy and the Aged: The Widening Gap," took a firsthand look at some of the problems associated with the high fuel costs and the difficulties of senior citizens and others who must contend with high fuel bills.

Through the testimony of witnesses, Senator John Heinz gathered information to verify the necessity of providing, at a minimum, $1.8 million for the low-income energy assistance program (LIEAP), and $150 million for the weatherization program in the 1982 fiscal year budget.

The Senator also communicated that even if it was clearly demonstrated to all in Congress the need to sustain or increase the LIEAP and weatherization program, Federal efforts would still solve only a fraction of the grave problem. There is a need for consumers, community groups, government, and the energy industry to share the responsibility for providing energy relief to the poor and elderly.

HUNGER, NUTRITION, OLDER AMERICANS: THE IMPACT OF THE FISCAL YEAR 1983 BUDGET, WASHINGTON, D.C., FEBRUARY 25, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Father William T. Cunningham, director, Focus: HOPE, Detroit, Mich.

Gene, P. Dickey, Acting Administrator, Food and Nutrition Service, U.S. Department of Agriculture, Washington, D.C.; accompanied by George Braley.

Lennie-Marie Tolliver, Ph. D., Commissioner, Administration on Aging, U.S. Department of Health and Human Services, Washington, D.C.

Jean Grant, commissioner, Citrus County, Fla., on behalf of the National Association of Counties.

J. Timothy Fagan, director, Baltimore County Office on Aging, Baltimore, Md.

Robert Greenstein, director, Center on Budget and Policy Priorities, Washington, D.C.

Martin Janis, director, Ohio Commission on Aging, Columbus, Ohio.

Rodney Williams, executive director, Philadelpha Corp. for Aging, Philadelphia, Pa.

ISSUES RAISED AND TESTIMONY SUMMARY

This hearing examined the fiscal year 1983 budget proposals and the consequences they could have for our Nation's elderly. Specifically, it focused on the administration's recommended reductions in the food stamp and nutrition programs, which are two programs that deal with one of the most basic needs of the elderly, the need for an adequate nutritional diet.

Fifteen years ago, before Congress established the food stamp and nutrition programs, hunger and malnutrition among older Americans were frequent conditions. Survey after survey indicated that millions of Americans were, in fact, going without meals every day. Since that time, food stamp and nutrition programs have alleviated these shameful conditions. More than 2.3 million older Americans now depend on food stamps and 3 million participate in nutrition programs. Testimony of community leaders who deal daily with the problems of hunger and nutrition among the elderly concluded that these elderly people are not taking help they do not need or do not deserve. They are people who have made valuable contributions to our society and, because of inflation, illness, or other adversities, are in need of assistance simply to eat to survive. Administration experts supported the view that the proposed cuts will have no impact on the truly needy in spite of the Department of Agriculture's estimate that 9 out of 10 older Americans would have their benefits reduced or entirely eliminated.

PROBLEMS ASSOCIATED WITH THE MEDICARE REIMBURSEMENT SYSTEM FOR HOSPITALS, WASHINGTON, D.C., MARCH 10, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Thomas G. Moore, Jr., consultant to the controller, State of California, Sacramento, Calif.; accompanied by Steve Kovasik, chief deputy controller.

Stephen K. Miller, Esq., principal, Community Hospital of the Valleys, Perris, Calif.

Pat Wilkinson, attorney, representing Allen Tatkin.

Bryan Mitchell, Deputy Inspector General, U.S. Department of Health and Human Services, Washington, D.C.

Barry Friedman, chief assistant deputy attorney general, medicaid fraud control unit, State of New York, New York, N.Y.

Merrit Jacoby, director of government affairs, Blue Cross and Blue Shield Associations, Washington, D.C.; accompanied by Dan Gregorio, director of medicare provider audit and reimbursement, Chicago, Ill.

John S. Hoff, Esq., representing the National Council of Community Hospitals, Washington, D.C.

Ted J. Ackroyd, Ph. D., vice president, division of health economics and finance, the Hospital Association of Pennsylvania, Harrisburg, Pa.

ISSUES RAISED AND TESTIMONY SUMMARY

The hearing identified significant problems related to the medicare reimbursement system associated with hospitals. Witnesses testified that the retrospective cost-based reimbursement mechanism employed by medicare is inefficient and ineffective, inhibiting competition, inflating costs, and offering providers perverse incentives.

As a result of these incentives, at least some providers have established elaborate related party arrangements and shell corporations which multiply costs. Other resulting abuses include overutilization, bill padding, and a variety of false billing schemes.

Representatives of the hospital industry complained that the reimbursement system is at once too generous and too restrictive. The system provided a cushion to cover inefficiency, but little in the way of positive incentives to providers. The system does not provide excess revenue to cover working capital, contingencies, and the replacement of equipment.

The hearing achieved a consensus that the current reimbursement system must be changed. Witnesses agreed that the system must be reformed to increase competition and offer positive incentives for cost containment.

IMPACT OF THE FEDERAL BUDGET ON THE FUTURE OF SERVICES FOR OLDER AMERICANS (JOINT HEARING WITH THE HOUSE SELECT COMMITTEE ON AGING), WASHINGTON, D.C., APRIL 1, 1982, HON. JOHN HEINZ AND HON. CLAUDE PEPPER, COPRESIDING

WITNESSES

Jack Ossofsky, executive director, National Council on the Aging, and chairman, Leadership Council of Aging Organizations; accompanied by Edward Howard, general counsel, National Council on the Aging.
Mary Jane Lyman, director, Waxter Center for Senior Citizens, Baltimore, Md.
Sarah Barron, consumer of services, Waxter Center for Senior Citizens, Baltimore, Md.
Loreda Ward, consumer of services, Waxter Center for Senior Citizens, Baltimore, Md.
Marie-Louise Ansak, executive director, On Lok Senior Health Services, San Francisco, Calif.
Gorham L. Black, Jr., secretary, Pennsylvania Department of Aging, Harrisburg, Pa.
Anna Brown, director, Cleveland Office on Aging, Cleveland, Ohio.
Janet S. Sainer, commissioner, New York City Office for the Aging, New York, N.Y.

ISSUES RAISED AND TESTIMONY SUMMARY

Held jointly with the House Select Committee on Aging at the 32d Annual Conference of the National Council on the Aging in Washington D.C., this hearing represented the continued commitment of both committees to be vigilant in their oversight of proposals and programs which will affect older citizens. Specifically examined were the effect of reductions in the Older Americans Act and the social services block grants on America's elderly included in the administration's fiscal year 1983 budget proposals.

As advocates in Congress for all older Americans, Senator Heinz and Representative Pepper pledged to insure that the basic needs of all elderly poor continued to be met.

HEALTH CARE FOR THE ELDERLY: WHAT'S IN THE FUTURE FOR LONG-TERM CARE, BISMARCK, N. DAK., APRIL 6, 1982, HON. QUENTIN N. BURDICK, PRESIDING

WITNESSES

Mildred Monke, member, Governor's Council on Aging; president, County Council on Aging; and member of the steering committee, Silver-Haired Legislature, Dickinson, N. Dak.
Walter J. Domrese, president, North Dakota Chapter, American Association of Retired Persons; former chairman, Governor's Conference on Aging; chairman, steering committee, Silver-Haired Legislature, Williston, N. Dak.
Larry Brewster, administrator, aging services program, State of North Dakota, Bismarck, N. Dak.
Rodger Wetzel, director, optional services project, State of North Dakota, Bismarck, N. Dak.

Peggy Jukkala, director, Hospital Home Health Agency, Jamestown, N. Dak.

Robert L. Howe, senior vice president, North Dakota Hospital Association, Grand Forks, N. Dak.

Allan B. Engen, Executive Director, North Dakota Health Care Association, Bismarck, N. Dak.

ISSUES RAISED AND TESTIMONY SUMMARY

Long-term care for the elderly is one of the most pressing problems which will face this country in the next decade. Senator Quentin Burdick's field hearing, held in Bismarck, N. Dak., focused on how long-term care can develop in the future—what services are needed by senior citizens, what they are likely to receive, and how the Federal Government can encourage the development of those services they need most. Witnesses discussed the options for long-term care in rural areas and how these options could be expanded.

THE IMPACT OF THE ADMINISTRATION'S HOUSING PROPOSALS ON OLDER AMERICANS, WASHINGTON, D.C., APRIL 23, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Raymond J. Struyk, director, housing studies program, the Urban Institute, Washington, D.C.

Philip Abrams, General Deputy Assistant Secretary-Deputy Federal Housing Commissioner, U.S. Department of Housing and Urban Development, Washington, D.C.

Jeanne Kinnard, steering committee member, Ad Hoc Coalition for Housing for the Elderly, Washington, D.C.

Ellen Feingold, executive director, Jewish Community Housing for the Elderly, Brighton, Mass.

Donald Peterson, administrator, St. John's Lutheran Home, Billings, Mont.; accompanied by Laurence F. Lane, director for public policy, American Association of Homes for the Aging, Washington, D.C.

Marie McGuire Thompson, housing specialist, International Center for Social Gerontology, Washington, D.C.

ISSUES RAISED AND TESTIMONY SUMMARY

The purpose of this hearing was to explore the needs of low-income older persons with respect to housing assistance. The administration's rental housing proposals were scrutinized to insure low-income elderly persons are treated fairly and equitably as the basic changes in Federal housing assistance programs were considered.

Representatives from the administration and the housing policy and industry experts discussed the possible consequences which would result from the curtailment or elimination of existing housing programs.

RURAL OLDER AMERICANS: UNANSWERED QUESTIONS, WASHINGTON, D.C., MAY 19, 1982, HON. LARRY PRESSLER, PRESIDING

WITNESSES

Ruth Kobell, legislative assistant, National Farmers Union, Washington, D.C.
Calvin Beale, Program Leader, Economic Development Division, U.S. Department of Agriculture, Washington, D.C.
David Earl Sutherland, director, rural gerontology program, Ohio University, Athens, Ohio.
Kay Hofer, director, Health Planning and Development Agency, South Dakota Department of Health, Pierre, S. Dak.

ISSUED RAISED AND TESTIMONY SUMMARY

Many rural elderly live in near poverty, because of high fuel bills, lack of transportation, and lack of services, as a result of programs designed for urban areas. "Rural Older Americans: Unanswered Questions" explored the retirement habits, health care needs, and other problems faced by the more than 5 million people over age 65 living in rural areas. Senator Larry Pressler, who chaired this hearing, heard testimony from witnesses offering a clearer indication of where congressional legislative efforts should be focused in order to best provide for the needs of rural older Americans. It helped build a record regarding the unique situation confronted by elderly who live in smaller towns and rural areas.

THE HOSPICE ALTERNATIVE, PITTSBURGH, PA., MAY 24, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Philip G. Decker, mid-Atlantic coordinator, national hospice education project and director, Hospice St. John, Kingston, Pa.
Earl S. Shope, M.D., medical director, Windber palliative care unit, Windber Hospital, Windber, Pa.
Bill Luckock, Pittsburgh, Pa.
Virginia Siciliano, Oakmont, Pa.
Ellen Walton, volunteer, Forbes Hospice, Pittsburgh, Pa.
Maryanne Fello, assistant executive director, Forbes Hospice, Pittsburgh, Pa.
Frances W. Cohen, executive director, South Hills family hospice program, Pittsburgh, Pa.
Nancy L. Bohnet, R.N., coordinator, Allegheny home care hospice, Northeast Allegheny Home Health Agency, Pittsburgh, Pa.
Carol J. De Moss, R.N., M.N., C.S., nurse clinician, in-home hospice service, Visiting Nurse Association of Allegheny County, Pittsburgh, Pa.

ISSUES RAISED AND TESTIMONY SUMMARY

Older persons account for over half of those suffering from a prolonged illness in this country. Although the concept of hospice is important to all groups, 50 to 70 percent of hospice patients nationwide are over the age of 65.

Hospice care emphasizes the quality of the last days of life and helps the terminally ill continue their lives with as little disruption as possible. It promises to be an effective substitute for traditional institutional care—both medically and emotionally—and costs are comparable to that of the institutional services currently provided to the terminally ill.

Senator John Heinz chaired this hearing, the first held in the U.S. Senate on the subject of hospice, in Pittsburgh, Pa. Providers of hospice services, families of hospice patients, and hospice volunteers, through their testimony, confirmed the importance of this alternative for the terminally ill and helped increase public and congressional awareness of its value.

NURSING HOME SURVEY AND CERTIFICATION: ASSURING QUALITY CARE, WASHINGTON, D.C., JULY 15, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Carolyne K. Davis, Ph. D., Administrator, Health Care Financing Administration, U.S. Department of Health and Human Services, Washington, D.C; accompanied by Daniel Bourque, Deputy Administrator, Health Care Financing Administration; and Thomas Morford, Director, Office of Standards and Certification, Health Care Financing Administration.

Norman Pawlewski, commissioner of health, State of Iowa, representing the Association of State and Territorial Health Officials, Des Moines, Iowa.

Mildred Simmons, R.N., deputy director, licensing and certification division, Department of Health Services, State of California, representing the Association of Health Facility Licensure and Certification Directors, Sacramento, Calif.

Edward J. Kuriansky, deputy attorney general for medicaid fraud control, and special prosecutor for nursing homes, health, and social services, State of New York, New York, N.Y.

Freida Gorrecht, president, National Citizens' Coalition for Nursing Home Reform, Detroit, Mich.

John E. Affeldt, president, Joint Commission on Accreditation of Hospitals, Chicago, Ill.; accompanied by Ralph Hall, director, long-term care accreditation program; and Paul Mullen, director, Government relations.

Jack A. MacDonald, executive vice president, National Council of Health Centers, Washington, D.C.; accompanied by Laurence F. Lane, director for policy development and implementation, American Association of Homes for the Aging; and Gailan Nichols, vice president, American Health Care Association.

ISSUES RAISED AND TESTIMONY SUMMARY

The Special Committee on Aging reviewed the serious concerns expressed about the regulations affecting nursing homes, which had been proposed by the U.S. Department of Health and Human Services, during this hearing on "Nursing Home Survey and Certification: Assuring Quality Care."

Federal standards and enforcement procedures have brought about significant improvements in the care of nursing home residents, yet instances of neglect, abuse, and substandard care are still heard about. The substance of the proposed regulations was discussed with the Department of Health and Human Services, the nursing home industry, and State and consumer representatives, in the Aging Committee's efforts to gain the broadest possible perspective on enforcement issues and possible alternative actions.

Groundwork was laid for achieving true regulatory relief for the Nation's nursing homes without imperiling the basic Federal protections for nursing home residents.

OPPORTUNITIES IN HOME EQUITY CONVERSION FOR THE ELDERLY, WASHINGTON, D.C., JULY 20, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Kenneth Scholen, director, National Center for Home Equity Conversion, Madison, Wis.

Maurice Weinrobe, professor, Clark University, Worcester, Mass.

Jack Guttentag, professor, Wharton School, University of Pennsylvania, Philadelphia, Pa.

James Firman, project officer, Robert Wood Johnson Foundation, Princeton, N.J.

Philip Abrams, Acting Assistant Secretary for Housing/Federal Housing Commissioner, U.S. Department of Housing and Urban Development, Washington, D.C.

Dorcas Hardy, Assistant Secretary for Human Development Services, U.S. Department of Health and Human Services, Washington, D.C.

Leo Baldwin, senior coordinator of housing programs, American Association of Retired Persons, Washington, D.C.

ISSUES RAISED AND TESTIMONY SUMMARY

Converting home equity into an income for elderly homeowners is a relatively new and promising idea. Both the 1981 White House Conference on Aging and the President's Commission on Housing recommended that the Federal Government take a more active role in making home equity conversion available on a national basis.

The Aging Committee explored the potential benefits and the barriers to the national development of home equity conversion. This hearing brought into focus the possibilities in which the Federal Government can assist in making income from home equity more accessible to the elderly.

Witnesses from the administration and from demonstration housing programs helped increase awareness of both the opportunities and risks to homeowners and lending institutions, and helped define the steps necessary to unlock the value of home equity for the millions of older Americans who can appropriately benefit from its promise.

LONG-TERM HEALTH CARE FOR THE ELDERLY, NEWARK N.J., JULY 26, 1982, HON. BILL BRADLEY, PRESIDING

WITNESSES

William Waldman, executive director, Department of Human Services, Middlesex County, N.J.: accompanied by George Legones, project manager, Community Care for the Elderly.

Irene Allan, social service director, Jack Pincus-UAW Senior Apartments, North Brunswick, N.J.

Myrtle Monahan, program patient.

Maureen Gilligan, director, Visiting Nurse Association, Middlesex County, N.J.

Peter Shields, director, area agency on aging, Union County, N.J.

Rosemary Cucarro, executive director, Visiting Nurse and Health Services, Union County, N.J.

David P. Hunter, president, Memorial Hospital, Burlington County, N.J., accompanied by William J. Kane, vice president for medical affairs.

Laurence G. Branch, Ph. D., assistant professor, Harvard Medical School, Boston, Mass.

George Hayden, Lakewood, N.J.

Linda Waller, income maintenance technician, welfare board, Burlington County, N.J.

George Emery, Point Pleasant, N.J.

Edward Wojcek, vice president of business affairs, Polish Cultural Foundation, Irving, N.J.

Louis Zelman, president, HoMed, Inc., Mountain Lakes, N.J.

Bernard J. Gallagher, Nutley, N.J.

Rita Schwartz, director, older adult department, Young Men-Young Women Christian Association, Union, N.J.

Dr. Lena F. Edwards, Lakewood, N.J.

ISSUES RAISED AND TESTIMONY SUMMARY

Senator Bill Bradley chaired this hearing on the future of long-term care in Newark, N.J. The purpose of this hearing was to explore methods in which senior citizens may remain in their homes as long as possible, thus keeping them out of costly institutional settings.

Federal funding for long-term care has decreased drastically in contrast to the rapidly increasing aged population in the United States. Between 1960 and 1980, those Americans who are 85 years of age doubled in number to 2.4 million individuals. This age group is projected to increase over 150 percent in the next 20 years. Since 20 percent of those individuals age 85 or older are in nursing homes, it is significant that the demand for long-term care is sure to increase markedly.

As a result of cuts in Federal aid to long-term care, efforts to better coordinate and provide alternatives to institutional care have been made. Witnesses from hospitals, demonstration projects, and communities gave examples of how the pooling of Federal and State funds and coordination of local services have made it possible to maintain adequate health care for senior citizens, while remaining in their homes and communities.

FRAUD, WASTE, AND ABUSE IN THE MEDICARE PACEMAKER INDUSTRY, WASHINGTON, D.C., SEPTEMBER 10, 1982, HON. JOHN HEINZ, CHAIRMAN, PRESIDING

WITNESSES

Madeline Garman, medicare beneficiary, Sarasota, Fla.

Edna L. Alderman, medicare beneficiary, Tucson, Ariz; accompanied by Gregory G. Wasley, Esq.

Howard F. Hofferman, pacemaker representative, Denver, Colo.

J. Richard Stanley, pacemaker representative, Houston, Tex.

Seymour Furman, M.D., Montefiore Hospital and Medical Center, New York, N.Y.

Mark Blum, M.D., Colorado Springs, Colo.

Peter Kowey, M.D., coronary care unit, Medical College of Pennsylvania, Philadelphia, Pa.

Brendan Phibbs, M.D., chief of medicine and director of cardiology, Kino Hospital, Tucson, Ariz.

Whitney A. McFarlin, corporate vice president, pacing systems group, Medtronic, Inc., Minneapolis, Minn.

Russell Chambers, president and chief executive officer, Intermedics, Inc., Freeport Tex.

ISSUES RAISED AND TESTIMONY SUMMARY

The pacemaker hearing identified significant problems in the purchase and use of these devices under medicare. Among these problems were excessive costs to the program, overutilization, inappropriately limited warranty provisions, the inability of the FDA to track pacemaker performance and protect medicare beneficiaries, questions relating to the professional preparedness of pacemaker physicians, undue reliance on the pacemaker salesman, and the existence of improper inducements to do business (i.e. kickbacks, rebates, and other schemes) at taxpayer's expense.

In all, the committee concluded there was reason to question the appropriateness or necessity of as much as half of the $2 billion medicare spends annually for pacemakers and related procedures.

SOCIAL SECURITY DISABILITY: THE EFFECTS OF THE ACCELERATED REVIEW, FORT SMITH, ARK., NOVEMBER 19, 1982, HON. DAVID PRYOR, PRESIDING

WITNESSES

Ken Patton, director, disability determinations service, State of Arkansas; accompanied by William Luce, assistant director, disability determinations service, State of Arkansas.

James Buie, M.D., orthopedic surgeon, Holt-Krock Clinic, Fort Smith, Ark.

David Staggs, M.D., internal medicine, Holt-Krock Clinic, Fort Smith, Ark.

Taylor Prewitt, M.D., cardiologist, Cooper Clinic, Fort Smith, Ark.

Judge Jerry Thomasson, administrative law judge, Office of Hearings and Appeals, Fort Smith, Ark.

Judge David T. Hubbard, administrative law judge, Office of Hearings and Appeals, Fort Smith, Ark.

Judge Frances Mayhue, administrative law judge, Office of Hearings and Appeals, Fort Smith, Ark.

Anna Lee McNoel, SSI disability recipient, Fort Smith, Ark.

Flanders Perry, disability recipient, Alma, Ark.; accompanied by William Cromwell, attorney, Rose, Kinsey, & Cromwell, Fort Smith, Ark.

Kenneth Reed, disability recipient, Paris, Ark.

Michael Pritchard, executive director, Ozark Legal Services, Fayetteville, Ark.; accompanied by Bonnie Nunes, paralegal, Ozark Legal Services; and Wanda Coleman and Mary Spence, disabled clients.

ISSUES RAISED AND TESTIMONY SUMMARY

Senator David Pryor chaired this field hearing in Fort Smith, Ark. The social security disability program and the effects of the triannual reviews of nonpermanently disabled which were mandated by the Social Security Amendments of 1980 were focused on.

Public witnesses included claimants and attorneys who handled disability cases and who saw problems with the adjudication process. The claimants had all been terminated from disability benefits through the review process and reinstated, but only after having gone through a lengthy and difficult appeals process. A group of physicians expressed the concern that SSA places restrictions on the type and amount of information that consultant physicians give in their reports—information that might help the claimant receive a more favorable decision.

Other witnesses raised questions regarding SSA management practices relative to the administrative law judge and regarding the difficulty States have in getting the appropriate doctors to do the consultative exams.

Supplement 3

COMMITTEE PRINTS AND REPORTS PRINTED BY THE SPECIAL COMMITTEE ON AGING IN 1982

1. DEVELOPMENTS IN AGING: 1981. PART 1, FEBRUARY 1982.
2. DEVELOPMENTS IN AGING: 1981, PART 2, FEBRUARY 1982.
3. SOCIAL SECURITY DISABILITY: PAST, PRESENT, AND FUTURE, MARCH 1982.
4. THE PROPOSED FISCAL YEAR 1983 BUDGET: WHAT IT MEANS FOR OLDER AMERICANS, MARCH 1982.
5. LINKAGES BETWEEN PRIVATE PENSIONS AND SOCIAL SECURITY REFORM, APRIL 1982.
6. HEALTH CARE EXPENDITURES FOR THE ELDERLY: HOW MUCH PROTECTION DOES MEDICARE PROVIDE?, APRIL 1982.
7. PUBLICATIONS LIST, APRIL 1982.
8. TURNING HOME EQUITY INTO INCOME FOR OLDER HOMEOWNERS, JULY 1982.
9. AGING AND THE WORK FORCE: HUMAN RESOURCE STRATEGIES, AUGUST 1982.
10. FRAUD, WASTE, AND ABUSE IN THE MEDICARE PACEMAKER INDUSTRY, SEPTEMBER 1982.
11. CONGRESSIONAL ACTION ON THE FISCAL YEAR 1981 BUDGET: WHAT IT MEANS FOR OLDER AMERICANS, NOVEMBER 1982.
12. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION ENFORCEMENT OF THE AGE DISCRIMINATION IN EMPLOYMENT ACT: 1978 TO 1982, NOVEMBER 1982.
13. PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES, DECEMBER 1982.

Supplement 4

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Supplement 5

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Action for the Aged and Aging, Report No. 128, March 1961.**
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Developments in Aging, 1965, Report No. 1073, March 15, 1966.**
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Developments in Aging, 1967, Report No. 1098, April 1968.**
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Retirement Income of the Aging:**
- Part 1. Washington, D.C., July 12-13, 1961.
- Part 2. St. Petersburg, Fla., November 6, 1961
- Part 3. Port Charlotte, Fla., November 7, 1961.
- Part 4. Sarasota, Fla., November 8, 1961.
- Part 5. Springfield, Mass., November 29, 1961.
- Part 6. St. Joseph, Mo., December 11, 1961.
- Part 7. Hannibal, Mo., December 13, 1961.
- Part 8. Cape Girardeau, Mo., December 15, 1961.
- Part 9. Daytona Beach, Fla., February 14, 1962.
- Part 10. Fort Lauderdale, Fla., February 15, 1962.

Housing Problems of the Elderly:**
- Part 1. Washington, D.C., August 22-23, 1961.
- Part 2. Newark, N.J., October 16, 1961.
- Part 3. Philadelphia, Pa., October 18, 1961.
- Part 4. Scranton, Pa., November 14, 1961.
- Part 5. St. Louis, Mo., December 8, 1961.

Problems of the Aging (Federal-State activities):**
- Part 1. Washington, D.C., August 23-24, 1961.
- Part 2. Trenton, N.J., October 23, 1961.
- Part 3. Los Angeles, Calif., October 24, 1961.
- Part 4. Las Vegas, Nev., October 25, 1961.
- Part 5. Eugene, Oreg., November 8, 1961.
- Part 6. Pocatello, Idaho, November 13, 1961.
- Part 7. Boise, Idaho, November 15, 1961.
- Part 8. Spokane, Wash., November 17, 1961.
- Part 9. Honolulu, Hawaii, November 27, 1961.
- Part 10. Lihue, Hawaii, November 29, 1961.
- Part 11. Wailuku, Hawaii, November 30, 1961.
- Part 12. Hilo, Hawaii, December 1, 1961.
- Part 13. Kansas City, Mo., December 6, 1961.

Nursing Homes:**
- Part 1. Portland, Oreg., November 6, 1961.
- Part 2. Walla Walla, Wash., November 10, 1961.
- Part 3. Hartford, Conn., November 20, 1961.
- Part 4. Boston, Mass., December 1, 1961.
- Part 5. Minneapolis, Minn., December 4, 1961.
- Part 6. Springfield, Mo., December 12, 1961.

Relocation of Elderly People:**
- Part 1. Washington, D.C., October 22-23, 1962.
- Part 2. Newark, N.J., October 26, 1962.
- Part 3. Camden, N.J., October 29, 1962.
- Part 4. Portland, Oreg., December 3, 1962.

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- Relocation of Elderly People—Continued
  - Part 5. Los Angeles, Calif., December 5, 1962.
  - Part 6. San Francisco, Calif., December 7, 1962.
- Frauds and Quackery Affecting the Older Citizen:**
  - Part 1. Washington, D.C., January 15, 1963.
  - Part 2. Washington, D.C., January 16, 1963.
  - Part 3. Washington, D.C., January 17, 1963.
- Housing Problems of the Elderly:**
  - Part 1. Washington, D.C., December 11, 1963.
  - Part 2. Los Angeles, Calif., January 9, 1964.
  - Part 3. San Francisco, Calif., January 11, 1964.
- Long-Term Institutional Care for the Aged (Federal programs), Washington, D.C., December 17-18, 1963.**
- Increasing Employment Opportunities for the Elderly:**
  - Part 1. Washington, D.C., December 19, 1963.
  - Part 2. Los Angeles, Calif., January 10, 1964.
  - Part 3. San Francisco, Calif., January 13, 1964.
- Health Frauds and Quackery:**
  - Part 1. San Francisco, Calif., January 13, 1964.
  - Part 2. Washington, D.C., March 9, 1964.
  - Part 3. Washington, D.C., March 10, 1964.
  - Part 4A. Washington, D.C., April 6, 1964 (eye care).
  - Part 4B. Washington, D.C., April 6, 1964 (eye care).
- Services for Senior Citizens:**
  - Part 1. Washington, D.C., January 16, 1964.
  - Part 2. Boston, Mass., January 20, 1964.
  - Part 3. Providence, R.I., January 21, 1964.
  - Part 4. Saginaw, Mich., March 2, 1964.
- Blue Cross and Other Private Health Insurance for the Elderly:**
  - Part 1. Washington, D.C., April 27, 1964.
  - Part 2. Washington, D.C., April 28, 1964.
  - Part 3. Washington, D.C., April 29, 1964.
  - Part 4A. Appendix.
  - Part 4B. Appendix.
- Deceptive or Misleading Methods in Health Insurance Sales, Washington, D.C., May 4, 1964.**
- Nursing Homes and Related Long-Term Care Services:**
  - Part 1. Washington, D.C., May 5, 1964.
  - Part 2. Washington, D.C., May 6, 1964.
  - Part 3. Washington, D.C., May 7, 1964.
- Interstate Mail Order Land Sales:**
  - Part 1. Washington, D.C., May 18, 1964.
  - Part 2. Washington, D.C., May 19, 1964.
  - Part 3. Washington, D.C., May 20, 1964.
- Preneed Burial Service, Washington, D.C., May 19, 1964.**
- Conditions and Problems in the Nation's Nursing Homes:**
  - Part 1. Indianapolis, Ind., February 11, 1965.
  - Part 2. Cleveland, Ohio, February 15, 1965.
  - Part 3. Los Angeles, Calif., February 17, 1965.
  - Part 4. Denver, Colo., February 23, 1965.
  - Part 5. New York, N.Y., August 2-3, 1965.

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- Conditions and Problems in the Nation's Nursing Homes—Continued
  - Part 6. Boston, Mass., August 9, 1965.
  - Part 7. Portland, Maine, August 13, 1965.
- Extending Private Pension Coverage:**
  - Part 1. Washington, D.C., March 4, 1965.
  - Part 2. Washington, D.C., March 5 and 10, 1965.
- The War on Poverty As It Affects Older Americans:**
  - Part 1. Washington, D.C., June 16-17, 1965.
  - Part 2. Newark, N.J., July 10, 1965.
  - Part 3. Washington, D.C., January 19-20, 1966.
- Services to the Elderly on Public Assistance:**
  - Part 1. Washington, D.C., August 18-19, 1965.
  - Part 2. Appendix.
- Needs for Services Revealed by Operation Medicare Alert, Washington, D.C., June 2, 1966.**
- Tax Consequences of Contributions to Needy Older Relatives, Washington, D.C., June 15, 1966.**
- Detection and Prevention of Chronic Disease Utilizing Multiphasic Health Screening Techniques, Washington, D.C., September 20, 21, and 22, 1966.**
- Consumer Interests of the Elderly:**
  - Part 1. Washington, D.C., January 17-18, 1967.
  - Part 2. Tampa, Fla., February 2-3, 1967.
- Reduction of Retirement Benefits Due to Social Security Increases, Washington, D.C., April 24-25, 1967.**
- Retirement and the Individual:**
  - Part 1. Washington, D.C., June 7-8, 1967.
  - Part 2. Ann Arbor, Mich., July 26, 1967.
- Costs and Delivery of Health Services to Older Americans:**
  - Part 1. Washington, D.C., June 22-23, 1967.
  - Part 2. New York, N.Y., October 19, 1967.
  - Part 3. Los Angeles, Calif., October 16, 1968.
- Rent Supplement Assistance to the Elderly, Washington, D.C., July 11, 1967.**
- Long-Range Program and Research Needs in Aging and Related Fields, Washington, D.C., December 5-6, 1967.**
- Hearing Loss, Hearing Aids, and the Elderly, Washington, D.C., July 18-19, 1968.**
- Usefulness of the Model Cities Program to the Elderly:**
  - Part 1. Washington, D.C., July 23, 1968.
  - Part 2. Seattle, Wash., October 14, 1968.
  - Part 3. Ogden, Utah, October 24, 1968.
  - Part 4. Syracuse, N.Y., December 9, 1968.
  - Part 5. Atlanta, Ga., December 11, 1968.
  - Part 6. Boston, Mass., July 11, 1969.
  - Part 7. Washington, D.C., October 14-15, 1969.
- Adequacy of Services for Older Workers, Washington, D.C., July 24-25, and 29, 1968.**
- Availability and Usefulness of Federal Programs and Services to Elderly Mexican-Americans:**
  - Part 1. Los Angeles, Calif., December 17, 1968.

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Availability and Usefulness of Federal Programs and Services to Elderly Mexican-Americans—Continued
- Part 2. El Paso, Tex., December 18, 1968.
- Part 3. San Antonio, Tex., December 19, 1968.
- Part 4. Washington, D.C., January 14-15, 1969.
- Part 5. Washington, D.C., November 20-21, 1969.

Economics of Aging: Toward a Full Share in Abundance:**
- Part 1. Washington, D.C., April 29-30, 1969.
- Part 2. Ann Arbor, Mich., consumer aspects, June 9, 1969.
- Part 3. Washington, D.C., health aspects, July 17-18, 1969.
- Part 4. Washington, D.C., homeownership aspects, July 31 and August 1, 1969.
- Part 5. Paramus, N.J., central suburban area, August 14, 1969.
- Part 6. Cape May, N.J., retirement community, August 15, 1969.
- Part 7. Washington, D.C., international aspects, August 25, 1969.
- Part 8. Washington, D.C., national organizations, October 29, 1969.
- Part 9. Washington, D.C., employment aspects, December 18-19, 1969.
- Part 10A. Washington, D.C., pension aspects, February 17, 1970.
- Part 10B. Washington, D.C., pension aspects, February 18, 1970.
- Part 11. Washington, D.C., concluding hearing, May 4, 5, and 6, 1970.

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- Part 1. Washington, D.C., July 30, 1969.
- Part 2. St. Petersburg, Fla., January 9, 1970.
- Part 3. Hartford, Conn., January 15, 1970.
- Part 4. Washington, D.C. (Marietta, Ohio, fire), February 9, 1970.
- Part 5. Washington, D.C. (Marietta, Ohio, fire), February 10, 1970.
- Part 6. San Francisco, Calif., February 12, 1970.
- Part 7. Salt Lake City, Utah, February 13, 1970.
- Part 8. Washington, D.C., May 7, 1970.
- Part 9. Washington, D.C. (Salmonella), August 19, 1970.
- Part 10. Washington, D.C. (Salmonella), December 14, 1970.
- Part 11. Washington, D.C., December 17, 1970.
- Part 12. Chicago, Ill., April 2, 1971.
- Part 13. Chicago, Ill., April 3, 1971.
- Part 14. Washington, D.C., June 15, 1971.
- Part 15. Chicago, Ill., September 14, 1971.
- Part 16. Washington, D.C., September 29, 1971.
- Part 17. Washington, D.C., October 14, 1971.
- Part 18. Washington, D.C., October 28, 1971.
- Part 19A. Minneapolis-St. Paul, Minn., November 29, 1971.

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- Trends in Long-Term Care—Continued
  - Part 19B. Minneapolis-St. Paul, Minn., November 29, 1971.
  - Part 20. Washington, D.C., August 10, 1972.
  - Part 21. Washington, D.C., October 10, 1973.
  - Part 22. Washington, D.C., October 11, 1973.
  - Part 23. New York, N.Y., January 21, 1975.
  - Part 24. New York, N.Y., February 4, 1975.
  - Part 25. Washington, D.C., February 19, 1975.
  - Part 26. Washington, D.C., December 9, 1975.
  - Part 27. New York, N.Y., March 19, 1976.
- Older Americans in Rural Areas:**
  - Part 1. Des Moines, Iowa, September 8, 1969.
  - Part 2. Majestic-Freeburn, Ky., September 12, 1969.
  - Part 3. Fleming, Ky., September 12, 1969.
  - Part 4. New Albany, Ind., September 16, 1969.
  - Part 5. Greenwood, Miss., October 9, 1969.
  - Part 6. Little Rock, Ark., October 10, 1969.
  - Part 7. Emmett, Idaho, February 24, 1970.
  - Part 8. Boise, Idaho, February 24, 1970.
  - Part 9. Washington, D.C., May 26, 1970.
  - Part 10. Washington, D.C., June 2, 1970.
  - Part 11. Dogbone-Charleston, W. Va., October 27, 1970.
  - Part 12. Wallace-Clarksburg, W. Va., October 28, 1970.
- Income Tax Overpayments by the Elderly, Washington, D.C., April 15, 1970.**
- Sources of Community Support for Federal Programs Serving Older Americans:**
  - Part 1. Ocean Grove, N.J., April, 18, 1970.
  - Part 2. Washington, D.C., June 8-9, 1970.
- Legal Problems Affecting Older Americans:**
  - St. Louis, Mo., August 11, 1970.
  - Boston, Mass., April 30, 1971.
- Evaluation of Administration on Aging and Conduct of White House Conference on Aging:**
  - Part 1. Washington, D.C., March 25, 1971.
  - Part 2. Washington, D.C., March 29, 1971.
  - Part 3. Washington, D.C., March 30, 1971.
  - Part 4. Washington, D.C., March 31, 1971.
  - Part 5. Washington, D.C., April 27, 1971.
  - Part 6. Orlando, Fla., May 10, 1971.
  - Part 7. Des Moines, Iowa, May 13, 1971.
  - Part 8. Boise, Idaho, May 28, 1971.
  - Part 9. Casper, Wyo., August 13, 1971.
  - Part 10. Washington, D.C., February 3, 1972.
- Cutbacks in Medicare and Medicaid Coverage:**
  - Part 1. Los Angeles, Calif., May 10, 1971.
  - Part 2. Woonsocket, R.I., June 14, 1971.
  - Part 3. Providence, R.I., September 20, 1971.
- Unemployment Among Older Workers:**
  - Part 1. South Bend, Ind., June 4, 1971.
  - Part 2. Roanoke, Ala., August 10, 1971.

NOTE: When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Unemployment Among Older Workers—Continued
Part 3. Miami, Fla., August 11, 1971.
Part 4. Pocatello, Idaho, August 27, 1971.
Adequacy of Federal Response to Housing Needs of Older Americans:**
Part 1. Washington, D.C., August 2, 1971.
Part 2. Washington, D.C., August 3, 1971.
Part 3. Washington, D.C., August 4, 1971.
Part 4. Washington, D.C., October 28, 1971.
Part 5. Washington, D.C., October 29, 1971.
Part 6. Washington, D.C., July 31, 1972.
Part 7. Washington, D.C., August 1, 1972.
Part 8. Washington, D.C., August 2, 1972.
Part 9. Boston, Mass., October 2, 1972.
Part 10. Trenton, N.J., January 17, 1974.
Part 11. Atlantic City, N.J., January 18, 1974.
Part 12. East Orange, N.J., January 19, 1974.
Part 13. Washington, D.C., October 7, 1975.
Part 14. Washington, D.C., October 8, 1975.
Flammable Fabrics and Other Fire Hazards to Older Americans, Washington, D.C., October 12, 1971.**
A Barrier-Free Environment for the Elderly and the Handicapped:**
Part 1. Washington, D.C., October 18, 1971.
Part 2. Washington, D.C., October 19, 1971.
Part 3. Washington, D.C., October 20, 1971.
Death With Dignity: An Inquiry Into Related Public Issues:**
Part 1. Washington, D.C., August 7, 1972.
Part 2. Washington, D.C., August 8, 1972.
Part 3. Washington, D.C., August 9, 1972.
Future Directions in Social Security:**
Part 1. Washington, D.C., January 15, 1973.
Part 2. Washington, D.C., January 22, 1973.
Part 3. Washington, D.C., January 23, 1973.
Part 4. Washington, D.C., July 25, 1973.
Part 5. Washington, D.C., July 26, 1973.
Part 6. Twin Falls, Idaho, May 16, 1974.
Part 7. Washington, D.C., July 15, 1974.
Part 8. Washington, D.C., July 16, 1974.
Part 9. Washington, D.C., March 18, 1975.
Part 10. Washington, D.C., March 19, 1975.
Part 11. Washington, D.C., March 20, 1975.
Part 12. Washington, D.C., May 1, 1975.
Part 13. San Francisco, Calif., May 15, 1975.
Part 14. Los Angeles, Calif., May 16, 1975.
Part 15. Des Moines, Iowa, May 19, 1975.
Part 16. Newark, N.J., June 30, 1975.
Part 17. Toms River, N.J., September 8, 1975.
Part 18. Washington, D.C., October 22, 1975.
Part 19. Washington, D.C., October 23, 1975.
Part 20. Portland, Oreg., November 24, 1975.

Note. When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Future Directions in Social Security—Continued
  Part 21. Portland, Oreg., November 25, 1975.
  Part 22. Nashville, Tenn., December 6, 1975.
  Part 23. Boston, Mass., December 19, 1975.
  Part 24. Providence, R.I., January 26, 1976.
  Part 25. Memphis, Tenn., February 16, 1976.
Fire Safety in Highrise Buildings for the Elderly:**
  Part 1. Washington, D.C., February 27, 1973.
  Part 2. Washington, D.C., February 28, 1973.
Barriers to Health Care for Older Americans:**
  Part 1. Washington, D.C., March 5, 1973.
  Part 2. Washington, D.C., March 6, 1973.
  Part 3. Livermore Falls, Maine, April 23, 1973.
  Part 4. Springfield, Ill., May 16, 1973.
  Part 5. Washington, D.C., July 11, 1973.
  Part 6. Washington, D.C., July 12, 1973.
  Part 7. Coeur d'Alene, Idaho, August 4, 1973.
  Part 8. Washington, D.C., March 12, 1974.
  Part 9. Washington, D.C., March 13, 1974.
  Part 10. Price, Utah, April 20, 1974.
  Part 11. Albuquerque, N. Mex., May 25, 1974.
  Part 12. Santa Fe, N. Mex., May 25, 1974.
  Part 13. Washington, D.C., June 25, 1974.
  Part 14. Washington, D.C., June 26, 1974.
  Part 15. Washington, D.C., July 9, 1974.
  Part 16. Washington, D.C., July 17, 1974.
Training Needs in Gerontology:**
  Part 1. Washington, D.C., June 19, 1973.
  Part 2. Washington, D.C., June 21, 1973.
  Part 3. Washington, D.C., March 7, 1975.
Hearing Aids and the Older American:**
  Part 1. Washington, D.C., September 10, 1973.
  Part 2. Washington, D.C., September 11, 1973.
Transportation and the Elderly: Problems and Progress:**
  Part 1. Washington, D.C., February 25, 1974.
  Part 2. Washington, D.C., February 27, 1974.
  Part 3. Washington, D.C., February 28, 1974.
  Part 4. Washington, D.C., April 9, 1974.
  Part 5. Washington, D.C., July 29, 1975.
  Part 6. Washington, D.C., July 12, 1977.
Improving Legal Representation for Older Americans:**
  Part 1. Los Angeles, Calif., June 14, 1974.
  Part 2. Boston, Mass., August 30, 1976.
  Part 3. Washington, D.C., September 28, 1976.
  Part 4. Washington, D.C., September 29, 1976.
Establishing a National Institute on Aging, Washington, D.C., August 1, 1974.**
The Impact of Rising Energy Costs on Older Americans:**
  Part 1. Washington, D.C., September 24, 1974.
  Part 2. Washington, D.C., September 25, 1974.
  Part 3. Washington, D.C., November 7, 1975.

NOTE. When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

- The Impact of Rising Energy Costs on Older Americans—Continued
  - Part 4. Washington, D.C., April 5, 1977.
  - Part 5. Washington, D.C., April 7, 1977.
  - Part 6. Washington, D.C., June 28, 1977.
  - Part 7. Missoula, Mont., February 14, 1979.
- The Older Americans Act and the Rural Elderly, Washington, D.C., April 28, 1975.**
- Examination of Proposed Section 202 Housing Regulations:**
  - Part 1. Washington, D.C., June 6, 1975.
  - Part 2. Washington, D.C., June 26, 1975.
- The Recession and the Older Worker, Chicago, Ill., August 14, 1975.**
- Medicare and Medicaid Frauds:**
  - Part 1. Washington, D.C., September 26, 1975.
  - Part 2. Washington, D.C., November 13, 1975.
  - Part 3. Washington, D.C., December 5, 1975.
  - Part 4. Washington, D.C., February 16, 1976.
  - Part 5. Washington, D.C., August 30, 1976.
  - Part 6. Washington, D.C., August 31, 1976.
  - Part 7. Washington, D.C., November 17, 1976.
  - Part 8. Washington, D.C., March 8, 1977.
  - Part 9. Washington, D.C., March 9, 1977.
- Mental Health and the Elderly, Washington, D.C., September 29, 1975.**
- Proprietary Home Health Care (joint hearing with the House Select Committee on Aging), Washington, D.C., October 28, 1975.**
- Proposed USDA Food Stamp Cutbacks for the Elderly, Washington, D.C., November 3, 1975.**
- The Tragedy of Nursing Home Fires: The Need for National Commitment for Safety (joint hearing with House Select Committee on Aging), Washington, D.C., June 3, 1976.**
- The Nation's Rural Elderly:**
  - Part 1. Winterset, Iowa, August 16, 1976.
  - Part 2. Ottumwa, Iowa, August 16, 1976.
  - Part 3. Gretna, Nebr., August 17, 1976.
  - Part 4. Ida Grove, Iowa, August 17, 1976.
  - Part 5. Sioux Falls, S. Dak., August 18, 1976.
  - Part 6. Rockford, Iowa, August 18, 1976.
  - Part 7. Denver, Colo., March 23, 1977.
  - Part 8. Flagstaff, Ariz., November 5, 1977.
  - Part 9. Tucson, Ariz., November 7, 1977.
  - Part 10. Terre Haute, Ind., November 11, 1977.
  - Part 11. Phoenix, Ariz., November 12, 1977.
  - Part 12. Roswell, N. Mex., November 18, 1977.
  - Part 13. Taos, N. Mex., November 19, 1977.
  - Part 14. Albuquerque, N. Mex., November 21, 1977.
  - Part 15. Pensacola, Fla., November 21, 1977.
  - Part 16. Gainesville, Fla., November 22, 1977.
  - Part 17. Champaign, Ill., December 13, 1977.

NOTE: When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Medicine and Aging: An Assessment of Opportunities and Neglect, New York, N.Y., October 13, 1976.**
Effectiveness of Food Stamps for Older Americans:**
  Part 1. Washington, D.C., April 18, 1977.
  Part 2. Washington, D.C., April 19, 1977.
Health Care for Older Americans: The "Alternatives" Issue:**
  Part 1. Washington, D.C., May 16, 1977.
  Part 2. Washington, D.C., May 17, 1977.
  Part 3. Washington, D.C., June 15, 1977.
  Part 4. Cleveland, Ohio, July 6, 1977.
  Part 5. Washington, D.C., September 21. 1977.
  Part 6. Holyoke, Mass., October 12, 1977.
  Part 7. Tallahassee, Fla., November 23, 1977.
  Part 8. Washington, D.C., April 17, 1978.
Senior Centers and the Older Americans Act, Washington, D.C., October 18, 1977.**
The Graying of Nations: Implications, Washington, D.C., November 10, 1977.**
Tax Forms and Tax Equity for Older Americans, Washington, D.C., February 24, 1978.**
Medi-Gap: Private Health Insurance Supplements to Medicare:**
  Part 1. Washington, D.C., May 16, 1978.
  Part 2. Washington, D.C., June 29, 1978.
Retirement, Work, and Lifelong Learning:**
  Part 1. Washington, D.C., July 17, 1978.
  Part 2. Washington, D.C., July 18, 1978.
  Part 3. Washington, D.C., July 19, 1978.
  Part 4. Washington, D.C., September 8, 1978.
Medicaid Anti-Fraud Programs: The Role of State Fraud Control Units, Washington, D.C., July 25, 1978.**
Vision Impairment Among Older Americans, Washington, D.C., August 3, 1978.**
The Federal-State Effort in Long-Term Care for Older Americans: Nursing Homes and "Alternatives," Chicago, Ill., August 30, 1978, stock No. 052-070-05042-0—$4.50.*
Condominiums and the Older Purchaser:**
  Part 1. Hallandale, Fla., November 28, 1978.
  Part 2. West Palm Beach, Fla., November 29, 1978.
Older Americans in the Nation's Neighborhoods:**
  Part 1. Washington, D.C., December 1, 1978.
  Part 2. Oakland, Calif., December 4, 1978.
Commodities and Nutrition Program for the Elderly, Missoula, Mont., February 14, 1979.**
The Effect of Food Stamp Cutbacks on Older Americans, Washington, D.C., April 11, 1979.**
Home Care Services for Older Americans: Planning for the Future, Washington, D.C., May 7 and 21, 1979.**
Federal Paperwork Burdens, With Emphasis on Medicare (joint hearing with Subcommittee on Federal Spending Practices and Open Government of the Senate Committee on Governmental Affairs), St. Petersburg, Fla., August 6, 1979.**

Note: When requesting or ordering publications in this listing, it is important that you first read the instructions on page I.

- Abuse of the Medicare Home Health Program, Miami, Fla., August 28, 1979.**
- Occupational Health Hazards of Older Workers in New Mexico, Grants, N. Mex., August 30, 1979.**
- Energy Assistance for the Elderly:**
  - Part 1. Akron, Ohio, August 30, 1979.
  - Part 2. Washington, D.C., September 13, 1979.
  - Part 3. Pennsauken, N.J., May 23, 1980.
  - Part 4. Washington, D.C., July 25, 1980 (joint hearing with Subcommittee on Aging of the Senate Committee on Labor and Human Resources).
- Regulations To Implement the Comprehensive Older Americans Act Amendments of 1978:**
  - Part 1. Washington, D.C., October 18, 1979 (joint hearing with Subcommittee on Aging of the Senate Committee on Labor and Human Resources).
  - Part 2. Washington, D.C., March 24, 1980.
- Medicare Reimbursement for Elderly Participation in Health Maintenance Organizations and Health Benefit Plans, Philadelphia, Pa., October 29, 1979.**
- Energy and the Aged: A Challenge to the Quality of Life in a Time of Declining Energy Availability, Washington, D.C., November 26, 1979.**
- Adapting Social Security to a Changing Work Force, Washington, D.C., November 28, 1979.**
- Aging and Mental Health: Overcoming Barriers to Service:**
  - Part 1. Little Rock, Ark., April 4, 1980.
  - Part 2. Washington, D.C., May 22, 1980.
- Rural Elderly—The Isolated Population: A Look at Services in the 80's, Las Vegas, N. Mex., April 11, 1980.**
- Work After 65: Options for the 80's:*
  - Part 1. Washington, D.C., April 24, 1980, stock No. 052-070-05358-5—$4.50.
  - Part 2. Washington, D.C., May 13, 1980, stock No. 052-070-05403-4—$4.75.
  - Part 3. Orlando, Fla., July 9, 1980, stock No. 052-070-05468-9—$4.50.
- How Old Is "Old"? The Effects of Aging on Learning and Working, Washington, D.C., April 30, 1980, stock No. 052-070-05469-7—$4.50.*
- Minority Elderly: Economics and Housing in the 80's, Philadelphia, Pa., May 7, 1980.**
- Maine's Rural Elderly: Independence Without Isolation, Bangor, Maine, June 9, 1980.**
- Elder Abuse, Washington, D.C., June 11, 1980 (joint hearing with House Select Committee on Aging).**
- Crime and the Elderly: What Your Community Can Do, Albuquerque, N. Mex., June 23, 1980, stock No. 052-070-05517-1—$5.*
- Possible Abuse and Maladministration of Home Rehabilitation Programs for the Elderly, Santa Fe, N. Mex., October 8, 1980, and Washington, D.C., December 19, 1980.**

Note.—When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

- Energy Equity and the Elderly in the 80's:**
  - Part 1. Boston, Mass., October 24, 1980.
  - Part 2. St. Petersburg, Fla., October 28, 1980.
- Retirement Benefits: Are They Fair and Are They Enough?, Fort Leavenworth, Kans., November 8, 1980.**
- Social Security: What Changes Are Necessary?**
  - Part 1. Washington, D.C., November 21, 1980.
  - Part 2. Washington, D.C., December 2, 1980.
  - Part 3. Washington, D.C., December 3, 1980.
  - Part 4. Washington, D.C., December 4, 1980.
- Home Health Care: Future Policy (joint hearing with Senate Committee on Labor and Human Resources), Princeton, N.J., November 23, 1980.**
- Impact of Federal Estate Tax Policies on Rural Women, Washington, D.C., February 4, 1981.***
- Impact of Federal Budget Proposals on Older Americans:***
  - Part 1. Washington, D.C., March 20, 1981.
  - Part 2. Washington, D.C., March 27, 1981.
  - Part 3. Philadelphia, Pa., April 10, 1981.
- Energy and the Aged, Washington, D.C., April 9, 1981.**
- Older Americans Act, Washington, D.C., April 27, 1981.***
- Social Security Reform: Effect on Work and Income After Age 65, Rogers, Ark., May 18, 1981.**
- Social Security Oversight:**
  - Part 1 (Short-Term Financing Issues). Washington, D.C., June 16, 1981.
  - Part 2 (Early Retirement). Washington, D.C., June 18, 1981.
  - Part 3 (Cost-of-Living Adjustments). Washington, D.C., June 24, 1981.
- Medicare Reimbursement to Competitive Medical Plans, Washington, D.C., July 29, 1981.***
- Rural Access to Elderly Programs, Sioux Falls, S. Dak., August 3, 1981.**
- Frauds Against the Elderly, Harrisburg, Pa., August 4, 1981.***
- The Social Security System: Averting the Crisis, Evanston, Ill., August 10, 1981.***
- Social Security Reform and Retirement Income Policy, Washington, D.C., September 16, 1981.***
- Older Americans Fighting the Fear of Crime, Washington, D.C., September 22, 1981.**
- Employment: An Option for All Ages, Rock Island, Ill., and Davenport, Iowa, October 12, 1981.***
- Older Workers: The Federal Role in Promoting Employment Opportunities, Washington, D.C., October, 29, 1981.***
- Rural Health Care for the Elderly: New Paths for the Future, Grand Forks, N. Dak., November 14, 1981.**
- Oversight of HHS Inspector General's Effort To Combat Fraud, Waste and Abuse (joint hearing with Senate Finance Committee), Washington, D.C., December 9, 1981.***
- Alternative Approaches To Housing Older Americans, Hartford, Conn., February 1, 1982.***

NOTE. When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Energy and the Aged: The Widening Gap, Erie, Pa., February 19, 1982.***

Hunger, Nutrition, Older Americans: The Impact of the Fiscal Year 1983 Budget, Washington, D.C., February 25, 1982.***

Problems Associated With the Medicare Reimbursement System for Hospitals, Washington, D.C., March 10, 1982.***

Impact of the Federal Budget on the Future of Services for Older Americans, Washington, D.C., April 1, 1982 (joint hearing with House Select Committee on Aging).***

Health Care for the Elderly: What's In the Future for Long-Term Care?, Bismarck, N. Dak., April 6, 1982.***

The Impact of the Administration's Housing Proposals on Older Americans, Washington, D.C., May 19, 1982.***

Rural Older Americans: Unanswered Questions, Washington, D.C., May 19, 1982.***

The Hospice Alternative, Pittsburgh, Pa., May 24, 1982.***

Nursing Home Survey and Certification: Assuring Quality Care, Washington, D.C., July 15, 1982.***

Opportunities in Home Equity Conversion for the Elderly, Washington, D.C., July 20, 1982.***

Long-Term Health Care for the Elderly, Newark, N.J., July 26, 1982.***

Fraud, Waste, and Abuse in the Medicare Pacemaker Industry, Washington, D.C., September 10, 1982.***

Social Security Disability: The Effects of Accelerated Review, Fort Smith, Ark., November 19, 1982 (joint hearing with the Subcommittee on Civil Service, Post Office, and General Services of the Senate Committee on Governmental Affairs).***

NOTE: When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

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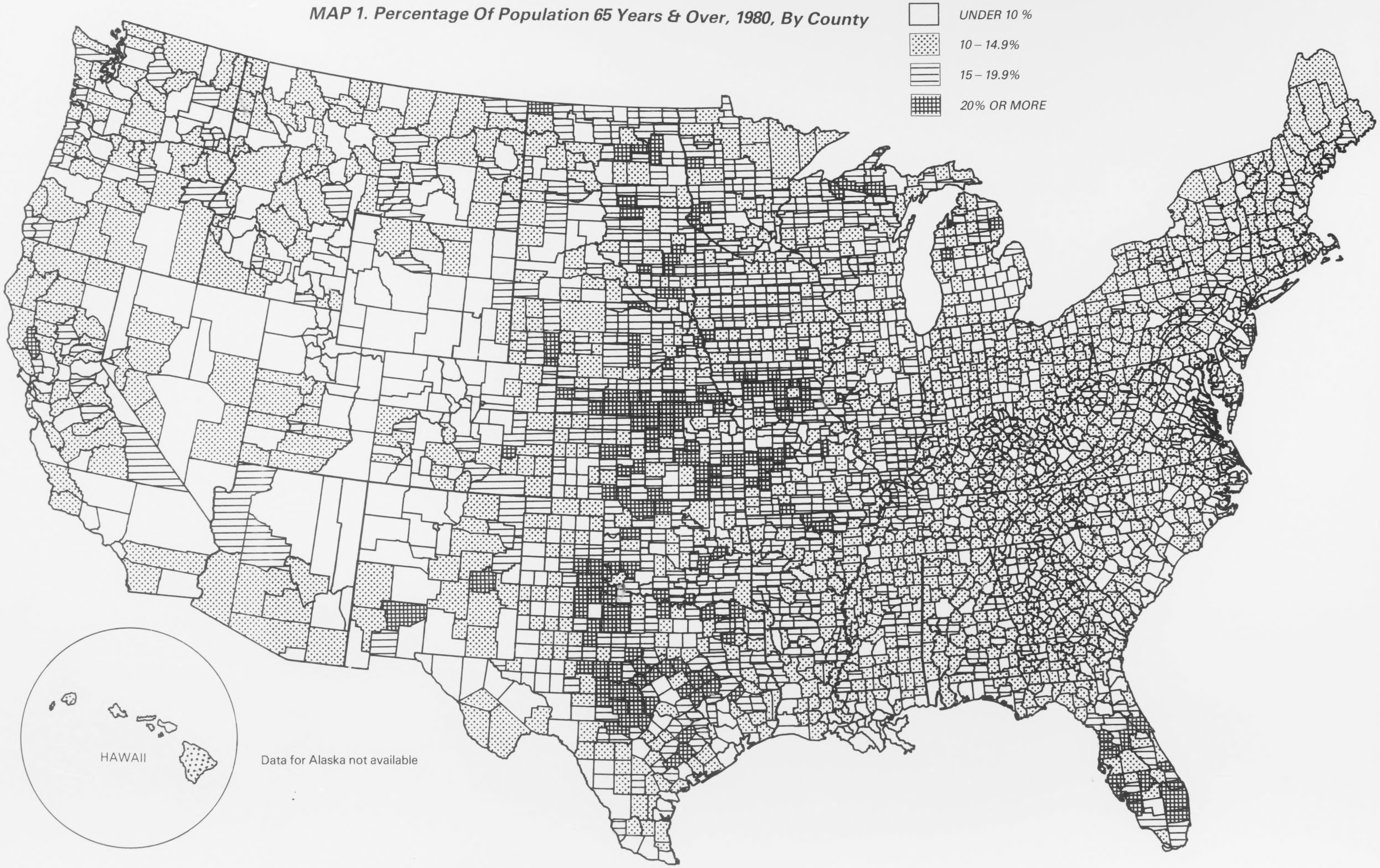
MAP 1. Percentage Of Population 65 Years & Over, 1980, By County

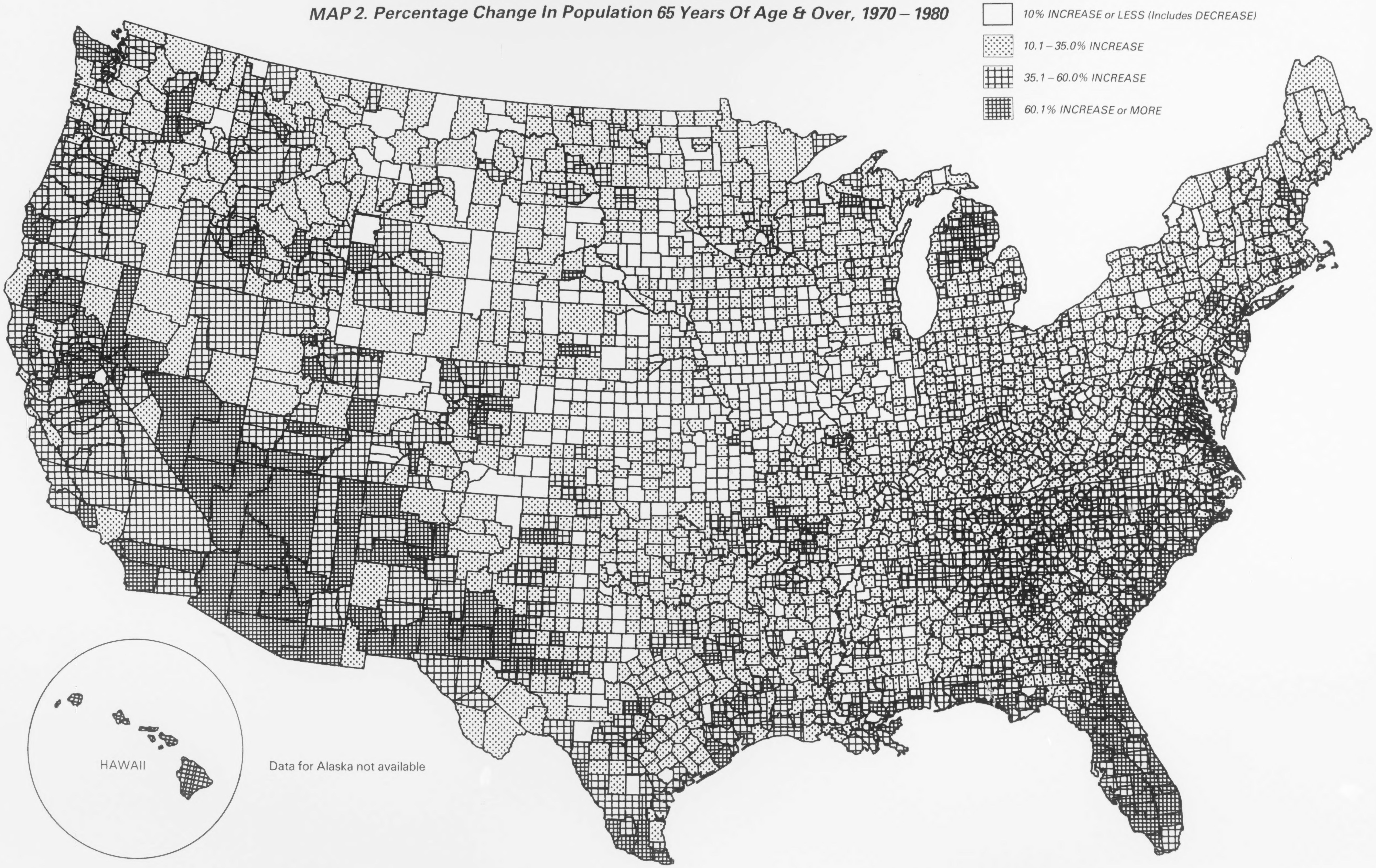

UNDER 10 %
10 – 14.9%
15 – 19.9%
20% OR MORE
HAWAII
Data for Alaska not available

SPECIAL COMMITTEE ON AGING · U.S. SENATE

Maps prepared for the Special Committee on Aging in conjunction with the Congressional Research Service and the Inter-university Consortium for Political and Social Research using cartographic software provided by the Statistical Research Laboratory, The University of Michigan. Based on data from the 1980 Census. February 1983

(1)

MAP 2. Percentage Change In Population 65 Years Of Age & Over, 1970 – 1980


☐ 10% INCREASE or LESS (Includes DECREASE)
░ 10.1 – 35.0% INCREASE
▦ 35.1 – 60.0% INCREASE
▩ 60.1% INCREASE or MORE
HAWAII

Data for Alaska not available

SPECIAL COMMITTEE ON AGING · U.S. SENATE

Maps prepared for the Special Committee on Aging in conjunction with the Congressional Research Service and the Inter-university Consortium for Political and Social Research using cartographic software provided by the Statistical Research Laboratory, The University of Michigan. Based on data from the 1980 Census. February 1983

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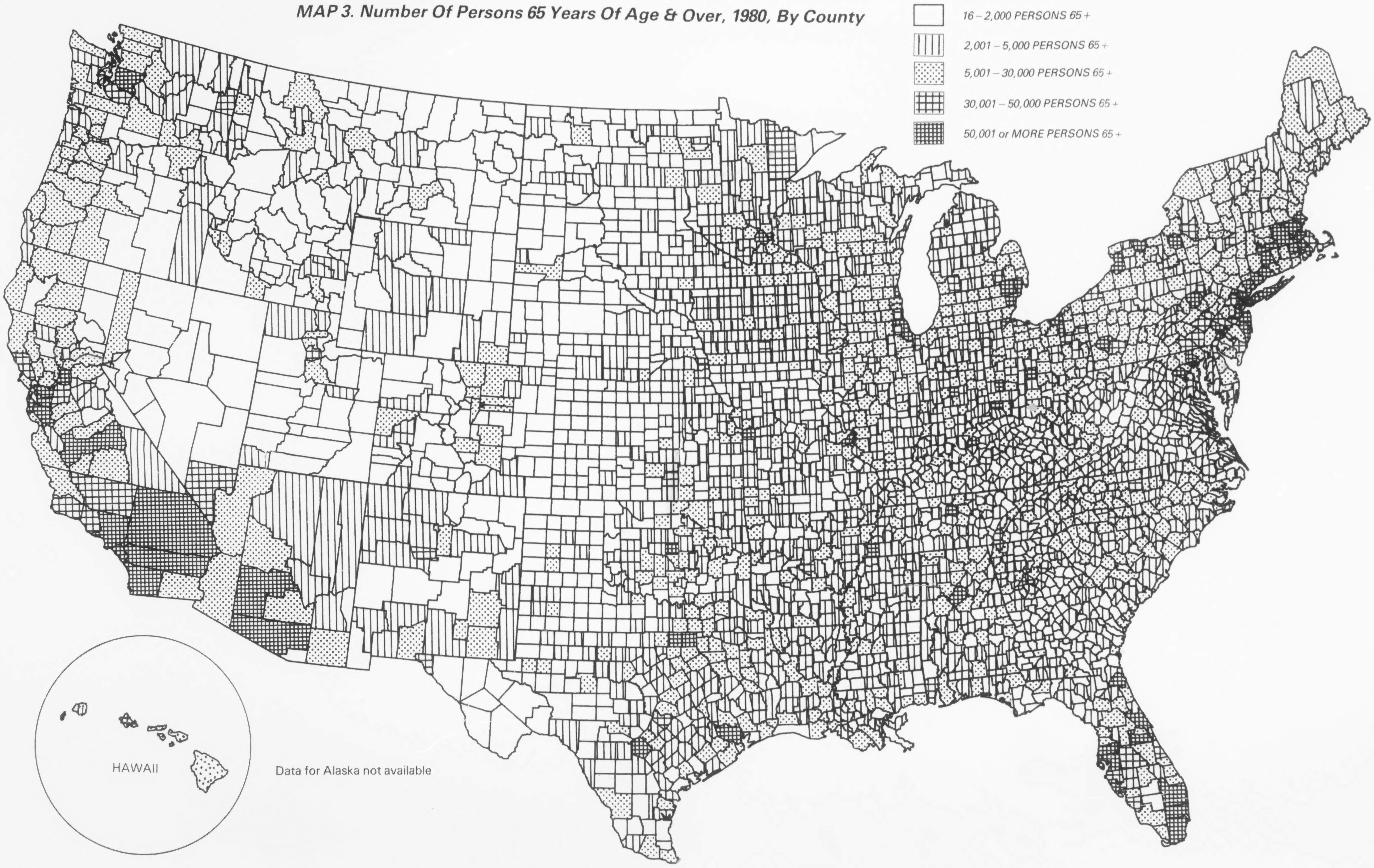
MAP 3. Number Of Persons 65 Years Of Age & Over, 1980, By County


☐ 16 – 2,000 PERSONS 65 +
▥ 2,001 – 5,000 PERSONS 65 +
░ 5,001 – 30,000 PERSONS 65 +
▦ 30,001 – 50,000 PERSONS 65 +
▩ 50,001 or MORE PERSONS 65 +
HAWAII
Data for Alaska not available

SPECIAL COMMITTEE ON AGING · U.S. SENATE

Maps prepared for the Special Committee on Aging in conjunction with the Congressional Research Service and the Inter-university Consortium for Political and Social Research using cartographic software provided by the Statistical Research Laboratory, The University of Michigan. Based on data from the 1980 Census. February 1983